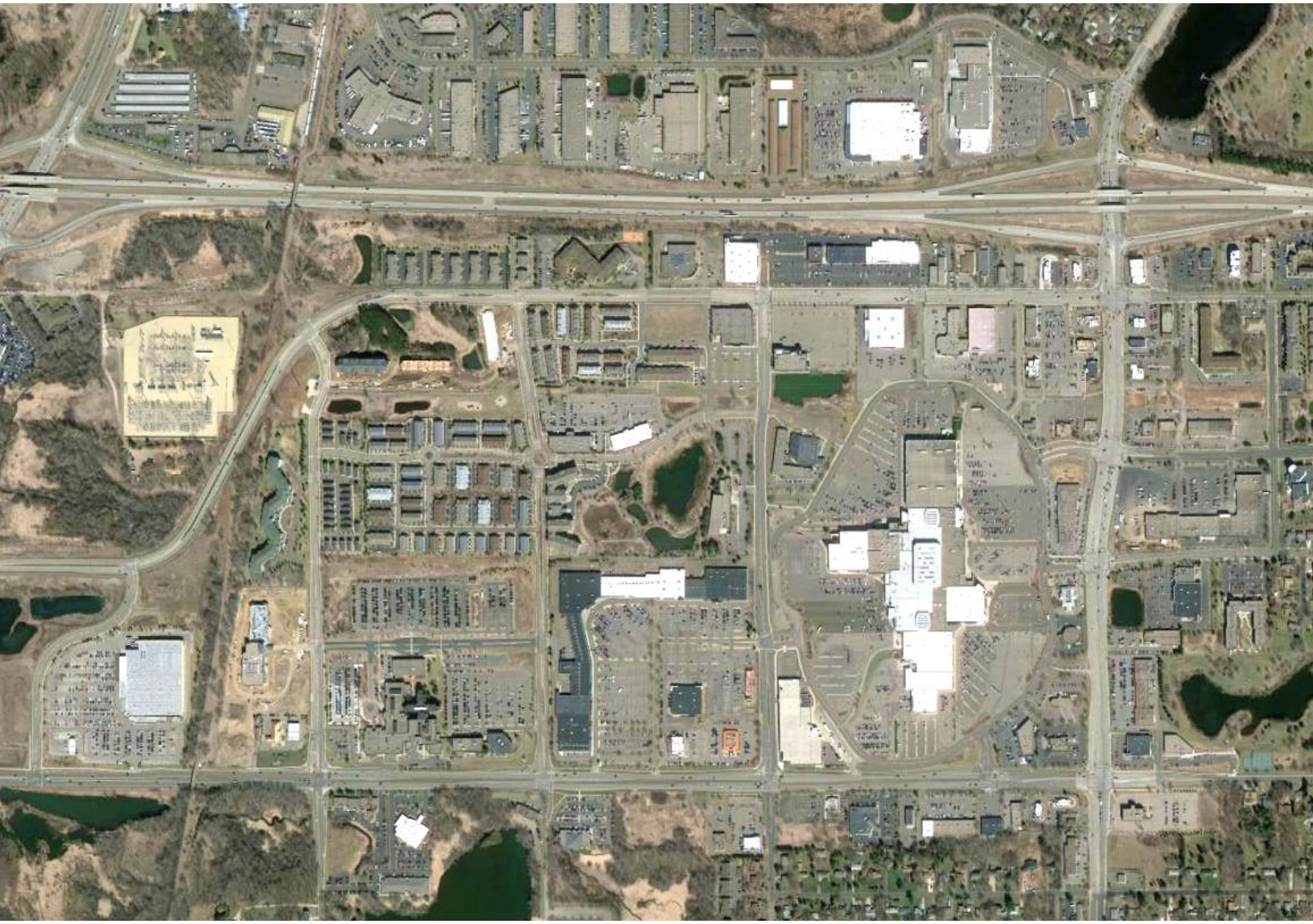
MAPLEWOOD NORTH END MARKET STUDY



Prepared for:

City of Maplewood, MN

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EXECUTIVE SUMMARY

Background

This market study analyzed the near- and long-term development potential within an area of Maplewood, Minnesota referred to as the North End, an area roughly bounded by Interstate 694 on the north, White Bear Avenue on the east, Beam Avenue on the south, and the Bruce Vento Regional Trail on the west. The North End is a major employment and activity center for the City of Maplewood. It is anchored by two major uses -- a regional shopping center (Maplewood Mall) and regional health care facility (St. John's Hospital) – as well as substantial amounts of new multifamily housing (both owner- and renter-occupied), numerous medical office buildings, other ancillary retail, including both strip centers and freestanding big-box stores, and a library.

This market study is the first step in a larger planning process that will help determine a vision for the future of the North End. Profound changes are impacting the North End – the retail industry is rapidly evolving, the healthcare industry continues to grow by leaps and bounds, and the Rush Line BRT will significantly enhance transit service to the area. Therefore, the purpose of this market study is to inform the planning process and provide stakeholders with data and analysis of the short- and long-term market trends that will shape and shift development opportunities in the North End. Important market factors related to demographic trends, economic trends, real estate supply and condition, as well as the opinions of real estate experts were evaluated and used to identify key findings and draw conclusions. The following is a summary of major findings and conclusions contained in this report.

Study Area Analysis

The study area contains a little under 400 acres in size and is approximately seven miles from downtown St. Paul and 13 miles from downtown Minneapolis. Most of the development in the study area is less than 40 years old and, therefore, has a mostly automobile-oriented development pattern defined by large blocks, wide streets, and buildings with substantial surface parking.

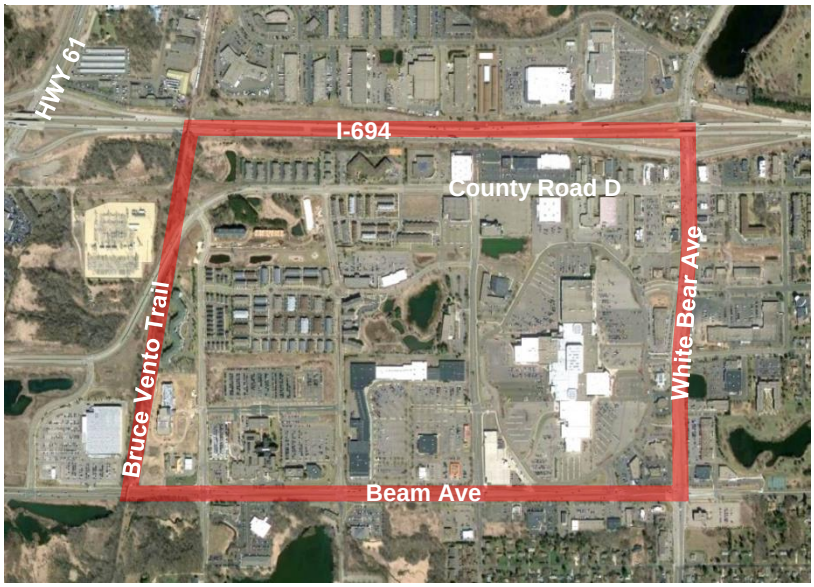
The study area is well connected to the metropolitan region via Interstate 694, Highway 61, and five different Metro Transit routes. Local arterials, such as White Bear Avenue and Beam Avenue, provide connections to nearby neighborhoods and adjacent cities. Moreover, the Bruce Vento Trail provides a safe off-street option for persons traveling by foot or bicycle to connect to destinations to the south, including Downtown St. Paul, and other regional trails, such as the Gateway Trail.

Traffic counts along roadways that serve the North End area are strong and reinforce the retail character of much of the North End. Although these roadways are critical in connecting the North End to the region and supporting uses, such as retail and healthcare, many of them are barriers to local mobility because of their size and higher speeds, especially for persons traveling by foot or bicycle.

Nearby destinations that would make the North End attractive to residents and employers include the rich complement of retail goods and services within the district, access to healthcare services, proximity

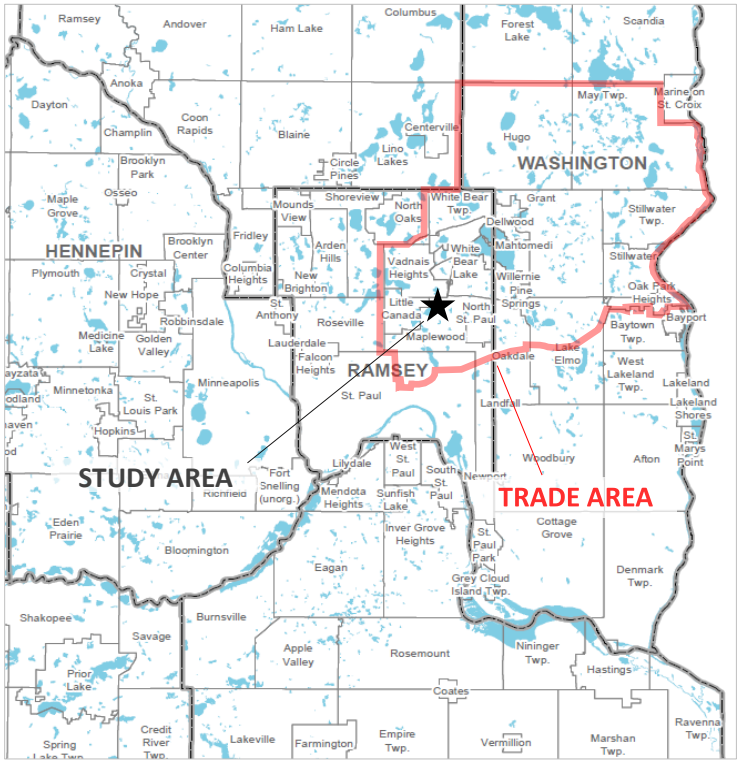
to Century College, a large community college within two miles of the North End area, and proximity to a concentration of corporate campuses less than six miles to the west along Interstate 694.

Map: North End Study Area



Due to the North End's advantageous location and mixture of uses and activities, businesses located there can easily draw customers from a wide trade area that encompasses much of northern Washington County and northeastern Ramsey County. Socio-economic data for the trade area was analyzed to determine future growth trend and identify demographic patterns that would affect demand for new development.

Map: North End Trade Area



Socio-Economic Analysis

Socio-economic data pertaining to the potential market demand for new development in the North End was gathered and analyzed. Based on demographic forecasts prepared by the Metropolitan Council, the trade area is anticipated to add 32,000 people and 22,000 new households by 2040. These growth figures will fuel additional demand for new housing, retail, and office space. Given the North End's strategic location, it will be able to capture a good portion of that demand provided redevelopment opportunities are identified and public realm improvements are invested in.

Regardless of the amount of growth, important demographic trends will influence the type of development needed to meet the growing demand. In particular, the population is aging, especially in the Trade Area. This will generate increased demand for multifamily housing, especially senior housing, as well as healthcare services. At the same time, parts of the trade area closest to the North End, such as Maplewood, are seeing growth rates among younger adults, especially those of child bearing age, increase at levels well above the metro area region. This indicates a growing demand for starter or entry-level housing as well as larger housing styles (i.e., 3BR+ units or larger).

Some of the demand for larger housing units generated by more households with children can be met as existing homes are vacated by empty-nesters and retirees who downsize. However, income trends are creating a barrier to this dynamic. Since 2000 younger households (those under age 45) in the trade area have seen their median income lag well behind the overall growth in median income. This means housing price appreciation, which many households rely on to build wealth, will have its limits.

Housing as a means to build wealth is already beginning to change. Since 2000 the homeownership rate in the trade area and across the region has dropped precipitously. The reasons for this are both demographic (more households in their prime renting years – under 35 and over 65) and economic (the recession-driven housing bust of the late 2000s). Nevertheless, homeownership as the primary investment vehicle for most households is waning, which is creating increased demand for more multifamily rental housing.

Market Analysis

HOUSING

The study evaluated data pertaining to residential construction trends, the rental apartment market, and the for-sale housing market. In terms of construction, there have been two important trends during the last 10-15 years. First, the housing bust resulted in a profound decline in construction of new housing. Although housing construction has begun to increase in the last several years, it is still well below historic patterns, which has resulted in a lack supply that is currently not meeting demand. Second, there has been a shift away from building single-family units to multifamily units, which now account for nearly two-thirds of the housing being built.

The rental apartment market is extremely tight with very low vacancy (3% in the trade area) and rapidly rising rents – average asking rent in the trade area has gone up more than $100 in the past two years. Such favorable market conditions for developers means that construction of market rate apartments is above historic patterns, though overall housing construction remains slow. After focusing in the central cities for many years, new market apartment construction is beginning to increase in the suburbs.

Within the North End, Conifer Ridge, a 150-unit development, just opened and will be an important test of local market conditions.

On the for-sale side of the market, home prices bottomed out in 2011 after the bust. After seven straight years of year-over-year price increases, the median sales price finally exceeded the previous high from 2006. Currently, the market is strong with very low inventory (both existing and new construction), short sales times, and steep price increases. For the North End, rapid price appreciation is creating demand for townhomes and other owner-occupied multifamily product.

RETAIL MARKET

Maplewood Mall anchors a retail district with nearly 2.5 million square feet of space. It is one of 14 retail districts with over two million square feet of space, which includes everything from neighborhood retailers to those with a regional draw. The retail sector is undergoing profound changes as e-Commerce continues to capture and ever increasing share of retail spending. This change is hitting regional shopping centers anchored by major department stores particularly hard. Although vacant retail space across all retail types has been absorbed as the economy has improved in the wake of the recession, construction of new retail space has slowed considerably and rents have not increased appreciably.

The uncertainty shrouding the retail sector has definitely led to delayed investments, especially in brick-and-mortar assets. Retail environments that appearing to bucking the trend are those in which the experience of a shopping visit takes precedence over its convenience. This means integrating other active uses to help draw potential customers, such as fitness centers, food markets, entertainment offerings, and office spaces. In some cases, retail centers are transforming their underutilized parking areas into various types of housing to better utilize the space and help it contribute to an overall sense of vitality.

OFFICE MARKET

Although the office market in the trade area is not prominent -- most of the main office districts are located in the west metro -- St. John's Hospital anchors an office submarket with an important concentration of medical office buildings. Due to the recent completion of the HealthEast Office Building immediately west of St. John's Hospital, short-term demand for medical office space is limited. However, the healthcare sector is forecasted to be the primary driver of job growth over the next 10 years in the metro area. Therefore, it is likely that demand for medical office space in the North End will continue to grow. Moreover, given the recent merger of HealthEast and Fairview health systems, it is possible that the combined resources of the two systems will leverage St. John's Hospital's role as a critical healthcare destination in the northeast metro, thus adding to any organic growth driven by demographics and an ever evolving healthcare industry.

Conclusions

Overall, the short and long-term market demand for new development in the North End has some positive signs but that the reality of a rapidly changing marketplace will require property owners and other stakeholders to stay ahead of fast moving trends and be in a position to seize opportunities quickly. If not, missed opportunities will compound on one another and potentially prevent any changes that would make a difference. This should come as no surprise to those who pay close attention to the

retail industry. Nevertheless, a broad statement proclaiming the potential of an area like the north End of Maplewood masks the fact that opportunity is not evenly dispersed throughout the study area. Differences in market demand can be based on a variety of factors, such as location, type of land use, market timing, competition, to name but a few.

Based on the data and analysis conducted as part of the market study, the following are key findings and conclusions regarding important market trends affecting the North End.

- **The North End study area is the key node of activity in the northeast metro.** With over two million square feet of retail space, over 1,000 units of housing, and almost 5,000 jobs, the study area is a vital economic generator. Moreover, recent and planned transportation investments, including the Bruce Vento Trail, a Metro Transit Center, and the Rush Line BRT, will only serve to increase connectivity to and from the study area, which will position it to continue to be a key node of activity well into the future.
- **Forecasted growth for the metro area and the North End's surrounding trade area will fuel demand for a variety of real estate uses, including new multifamily housing, new retail concepts that will likely emerge in an increasingly digital world, and more traditional and medical office space that will be needed to support a growing and aging population.** Based primarily on growth forecasts for the trade area, the North End study area could potentially support up to 2,200 new units of housing, over 120,000 square feet of new office space, and significant rehabilitation and reconfiguration of its existing retail structures.
- **The trade area population is older than the metro area.** As the number of older adults continues to grow this will affect the need for more housing with services, access to medical care, access to healthy activities, and reduced levels of spending on certain retail categories, such as entertainment, apparel, and fast casual dining.
- **Although older adults are increasing in the trade area, persons that are prime child bearing age (25 to 34) grew at a faster rate in Maplewood and the trade area compared to the metro area from 2010 to 2016.** This will boost the number of children in the coming years and increase demand for larger housing styles (3BR+) and spending in most retail categories.
- **Homeownership has been on the decline since 2000 in the trade area as well as across the region.** This is due to a variety of reasons, including changes in the mortgage industry brought on by the 2008-09 recession, recent demographic shifts favoring age groups with the propensity to rent, rising home prices making homeownership unobtainable for many households, and greater interest in living in neighborhoods with a high level of walkability, which requires denser forms of housing that are often rented and not owned.
- **Incomes in the trade area are, on average, slightly below those of the metro area.** More importantly, since 2000, the rate of increase in the trade area has lagged behind the metro area rate of increase. This will be seen as a barrier to investment among many private developers, especially those that are risk-averse. Of particular interest, is the income trends among younger households (those under age 45) and older households (those age 65 and older). Incomes among younger households are not keeping with other age groups. Meanwhile, older households are experiencing income increases well ahead of all other age groups. This dynamic has the potential to create a significant cultural gap between younger and older households, which could have political ramifications in which government investment skews more heavily toward the benefit of older households and away from younger households.
- **St. John's Hospital is a key employer in the study area.** Its growth has helped make healthcare services the largest industry sector in the trade area. Moreover, the likelihood of St. John's and the ancillary facilities

that have grown up around it to grow even more in the coming years is high. According to data from the Minnesota Department of Employment and Economic Development, occupations in healthcare services account for the top three fastest growing occupations in the Twin Cities metro area through 2024.

- **Housing will drive demand for new development in the study area in both the short-term and long-term.** The housing market is currently exceptionally strong and indicators suggest it will stay strong for at least a couple more years, barring an economic downturn. Rental housing in suburban markets will be especially strong because new apartment development has been lacking for many years and is now starting to pick up steam. However, like all real estate sectors, housing will eventually go through a down cycle. Nevertheless, the characteristics of the study area are such that housing will continue to be the main driver of change over time. This has to do mostly with the demand for housing at important activity nodes, but it also has to do with the decreasing need for space in the retail and office sectors.

- **Housing as a main driver of change can be seen in other suburban activity nodes across the metro area.** For example, in the Southdale area of Edina over 700 market rate apartments have been developed since 2014. Another 860 units are under construction or well through the planning process. In the Ridgedale area of Minnetonka, 460 housing units have been recently constructed or are under development.

- **The primary barriers to housing development in the study area will be availability of sites and the market's ability to support rents that will make projects financially feasible.** Conifer Ridge, the apartment property that just opened in the study area, was built on one of the last remaining undeveloped sites in the study area. Therefore, any future housing development will likely require the redevelopment or repurposing of an existing property, which will be dependent on property owners to sell their property to a developer or take on the development themselves. As for testing the market support for new housing, according to CoStar, Conifer Ridge is nearing stabilized occupancy after being open less than a year. This rate of absorption will be noticed by the development community, and, unless management was offering significant concessions in order to fill units quickly, the asking rents (at more than $1.70 per square foot) will also attract interest.

- **The greatest housing need is for workforce and low-income housing.** Because of rapidly rising housing costs, this is a growing need across the metro area and not just in the trade area. The challenge, of course, is that the target market cannot afford rents that would make a project financially feasible, unless there some type of public assistance that can help close the financial gap. Assistance can come a variety of forms. For example, financial assistance can come in the form of tax-increment financing (TIF), tax abatement, grants, or help with site acquisition and/or clean-up costs. Regulatory assistance can come in the form of streamlining the approval process or allowing density bonuses or other incentives for including below market units.

- **Housing for seniors will be needed as well given the aging of the population in the trade area.** There are several levels of senior housing currently in the study area. The newest is Maple Hill Senior Living, which is an assisted living and memory care facility that was previously a hotel. The greatest demand for senior housing in the near-term, however, will come not from persons with care needs but from Baby Boomers, who are now entering their mid-70s. This group is looking for housing that is lower maintenance but does not necessarily have supportive care associated with it. In some cases, an age-restriction would appeal to this group, but many times traditional rental properties with access to trails and modern features and amenities is the most desirable options. This target market will also desire owner-occupied, low maintenance housing. This can be townhomes or condominiums/cooperatives. Regardless of whether the housing is owned or rented, this group will be looking for single-level living.

- **The future of Maplewood Mall will be extremely important to the remainder of the study area and its ability to attract investment and support redevelopment.** The mall has been an icon for the

northeast metro for over 40 years. It defines the area and gives it a sense of identity. For good reason, it attracts thousands of people per day for shopping, dining, recreation, and employment. However, the enclosed shopping mall is at a crossroads. The business model behind the design is changing. Department stores no longer can serve as the anchors that draw visitors. Therefore, new anchors, new uses, and potentially new designs will be necessary for survival. The development community is paying close attention to the choices mall owners make. If they feel the adaptations are inadequate this will affect their decisions to invest in the study area.

- **Any repositioning of Maplewood Mall has a very thin margin for error.** Sears will be closing in July 2018. Macy's and JC Penney have been systematically reducing their number of stores. Moreover, in terms of overall size and affluence, the mall's trade area demographics are in the bottom half when compared to the trade areas of other metro area regional shopping districts. This puts Maplewood Mall at a greater risk than malls located in more affluent trade areas in which there is more market depth and developer interest to "test out" grand ideas for how a mall can successfully reposition itself. Given all the uncertainty, the most marketable approach to any repositioning would be to assume uncertainty as a given and plan any physical change to be as flexible and adaptable as possible.
- **Office uses will not drive development in the study area.** Instead, the demand for office space will be entirely driven by long-term growth in the household base. The northeast metro area is not a major office district and thus lacks even a single Class A office property. As a result, the office space that does exist in the trade area mostly satisfies local demand from small professional service firms, such as real estate agents, financial planners, attorneys, accountants, etc.
- **When office market conditions in the trade area are supportive of new development, the study area should be considered a priority location.** It has many of the amenities employers are looking for to help with worker attraction and retention (i.e., proximity to shops, restaurants, trails, and transit). Currently, the office vacancy rate in the trade area is tight (less than 4.5% compared the metro area rate of 8.0%) and rents have been on an upward trend in the last three years. This suggests that there may be pent-up demand in the market for a small office building (under 30,000 square feet).
- **Medical office space is an important niche in the study area and should be evaluated for how the clustering of activities and specialties could be leveraged into new opportunities for growth and/or development.** There are 14 medical office buildings in the study area with a combined total of over 500,000 square feet. This concentration of space means that there is an unusually strong cluster that anchors a trade area in which 22 percent of all office space is in medical office buildings. To illustrate how strong a cluster this is, across the metro area that proportion is only six percent.

INTRODUCTION

Background and Purpose

Maplewood, Minnesota is interested in creating a vision plan for an area located in the north central portion of the city, roughly bounded by Interstate 694 on the north, White Bear Avenue on the east, Beam Avenue on the south, and the Bruce Vento Regional Trail on the west. This area is a major employment and activity center for the City of Maplewood. It is anchored by two major uses -- a regional shopping center (Maplewood Mall) and regional health care facility (St. John's Hospital) – as well as substantial amounts of new multifamily housing (both owner- and renter-occupied), numerous medical office buildings, other ancillary retail, including both strip centers and freestanding big-box stores, and a library.

Because this part of Maplewood is such an important economic generator, it will be critical that the vision plan is not overly aspirational and is rooted in market realities. Otherwise, it risks sitting on a shelf unable to be implemented. Therefore, this market study is intended to inform the planning process and provide stakeholders with data and analysis of the short- and long-term market trends that will shape and shift opportunities in the study area. Important market factors related to demographic trends, economic trends, real estate supply and condition, as well as the opinions of real estate experts were evaluated and used to identify key findings and draw conclusions.

Data Resources

This study represents a compilation of data gathered from various sources, including the properties surveyed, local records, interviews with local officials and real estate professionals, as well as secondary demographic material. Although Perkins+Will judges these sources to be reliable, it is impossible to authenticate all data. The analyst does not guarantee the data and assumes no liability for any errors in fact, analysis, or judgment. The secondary data used in this study are the most recent available at the time of the report preparation.

The objective of this report is to gather, analyze, and present as many market components as reasonably possible within the time and budget constraints agreed upon. The conclusions contained in this report are based on the best judgments of the analysts; Perkins+WIll makes no guarantees or assurances that the projections or conclusions will be realized as stated. It is Perkins+Will's function to provide our best effort in data aggregation and to express opinions based on our evaluation.

STUDY AREA ANALYSIS

The study area is located in the City of Maplewood, a suburb north and east of St. Paul. It contains a little under 400 acres, and is bounded by White Bear Avenue to the east, Beam Avenue to the south, the Bruce Vento Trail to the west, and I-694 to the north. It is approximately seven miles from downtown St. Paul and 13 miles from downtown Minneapolis.

Existing Land Uses and Character

The study area is a major employment and activity center for the City of Maplewood. It is anchored by two major uses -- a regional shopping center (Maplewood Mall) and regional health care facility (St. John's Hospital) – as well as substantial amounts of new multifamily housing (both owner- and renter-occupied), numerous medical office buildings, satellite strip malls, freestanding big-box stores, and a library.

Retail uses are concentrated in the eastern half of the study area. Of particular note is Maplewood Mall. Built in the mid-1970s, the mall contains just over 800,000 square feet of retail space and has been the dominant use in the study area for nearly 50 years. Important anchors of the mall include Macy's, Kohl's, and JC Penney. At the time of this study, Sears was the fourth department store anchor of the mall. However, it has been reported that Sears intends to close this location by July 2018.

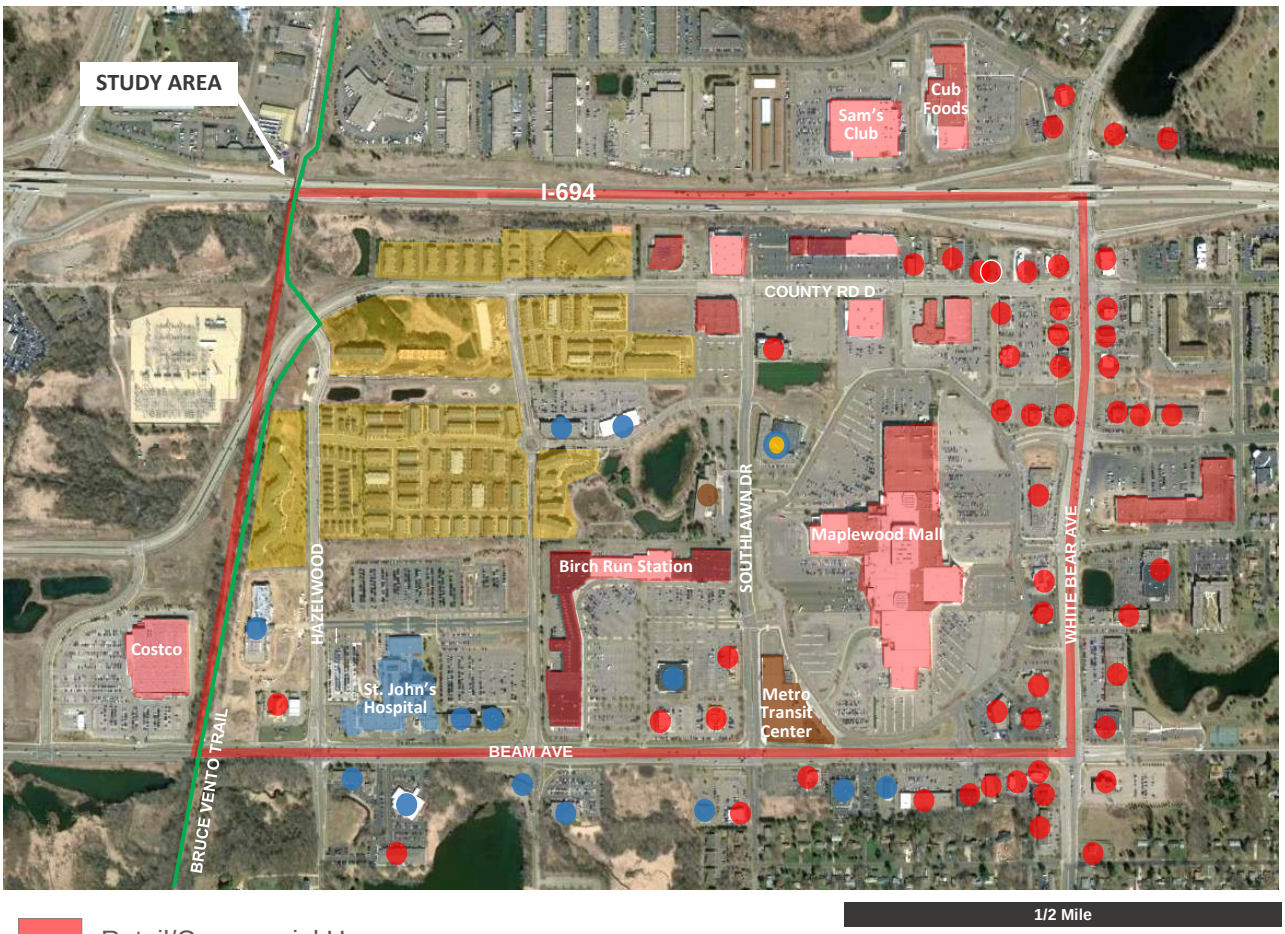
In addition to Maplewood Mall, the study area also contains another 800,000 square feet of retail space, nearly half of which is in Birch Run Station, an in-line strip mall immediately west of Maplewood Mall. Further establishing the retail character of the study area is roughly 750,000 square feet of retail space located within a ¼ mile of the study area but just outside its borders.

Healthcare related uses are concentrated in the southwest portion of the study area. This area is anchored by St. John's Hospital. Built in 1984, the hospital has 184 licensed beds and contains nearly 340,000 square feet of usable space. Supporting the hospital are seven medical office buildings with a combined total of nearly 400,000 square feet. Within a ¼ mile of the study area are another seven medical office buildings with over 130,000 square feet of office space.

In the northwest portion of the study area, multifamily housing is the dominant use. Developed much later than the retail and office areas, this area includes more multimodal transportation options, such as sidewalks and trails, and overall has a more compact development pattern. There are nearly 1,000 units of housing in the area with a wide variety a product types, including senior housing (with differing levels of care), owner-occupied townhomes, affordable rental townhomes, and market rate rental apartments.

Other uses in the study area are entertainment (Myth Live event center) and a branch of the Ramsey County Library. With the exception of one or two small sites, the study area is fully developed. However, given the strong commercial and institutional character of the study area, which attracts users from a large trade area, a significant portion of study area land is for parking. These large parking fields, many of which are underutilized, represent opportunities for new development.

Map 1: Study Area Land or Property Uses



Accessibility

The study area is well connected to the remainder of the region via access to the regional highway network. I-694 forms the norther border of the study area in which there is a full interchange at White Bear Avenue, the eastern border of the study area. I-694 provides direct access to downtown St. Paul via I-35E and to downtown Minneapolis via I-35W. Furthermore, I-694 is part of the interstate "beltway" around the Minneapolis-St. Paul. Therefore, it provides easy access to communities east and south of St. Paul as well as direct access to communities north and west of Minneapolis.

Highway 61 and White Bear Avenue are important north-south arterial roads that connect the study area to important regional destinations as well. In addition to providing direct connections to Vadnais Heights and White Bear Lake to the north and St. Paul to the south, both roadways also connect to Highway 36 about a one mile south of the study area. Highway 36 is an important east-west alternative to I-694.

It should be noted that the new St. Croix River Bridge just south of Stillwater, which is linked to Highway 36, will incentivize new residential development in western Wisconsin. Because the study area is located along the northeastern portion of the Twin Cities beltway, it is in a position to capture retail dollars from western Wisconsin households and be an attractive location for employers who want to draw from a growing workforce in Wisconsin. However, the market impact of this dynamic will be many years in the making and likely won't be felt until thousands of new households locate in western Wisconsin.

The study area is served by five different Metro Transit bus routes. There are two routes that provide express service to downtown St. Paul (#270) and downtown Minneapolis (#265). The St. Paul express service operates Monday thru Friday with inbound busses in the morning and four outbound busses in the evening. The Minneapolis service consists of 18 inbound busses in the morning and 18 outbound busses in the evening. There are also three local bus routes that connect the study area to Rosedale (#223), the greater east side of St. Paul (#80), and to the suburbs east of St. Paul (#219). Metro Transit operates a transit center with park-and-ride facilities in a structure at the northeast corner of Beam Avenue and Southlawn Drive.

The study area is also connected to the regional trail system via the Bruce Vento Trail, which is the western border of the study area. The Bruce Vento Trail terminates near downtown St. Paul and also provides a connection to the Gateway Trail, which links to Stillwater on the east as well as downtown St. Paul.

Local vehicular access to the study area is primarily via White Bear Avenue, Beam Avenue, County Road D, and Hazelwood Street. Internal access is primarily via Kennard Street, Southlawn Drive, and Legacy Parkway. Due to the predominance of large commercial and institutional structures, much of the eastern and southern portions of the study area consist of very large "superblocks". Although sidewalks often provide pedestrian circulation throughout most of these large blocks, internal circulation is dominated by vehicular movement.

Connections to neighborhoods surrounding the study area are limited especially to the north and west where I-694 and Highway 61 are major barriers with few crossings. Connections to the south and east are better, but White Bear Avenue and Beam Avenue are divided four-lane roadways, which also makes crossings challenging, especially for those traveling on foot or by bicycle.

Visibility

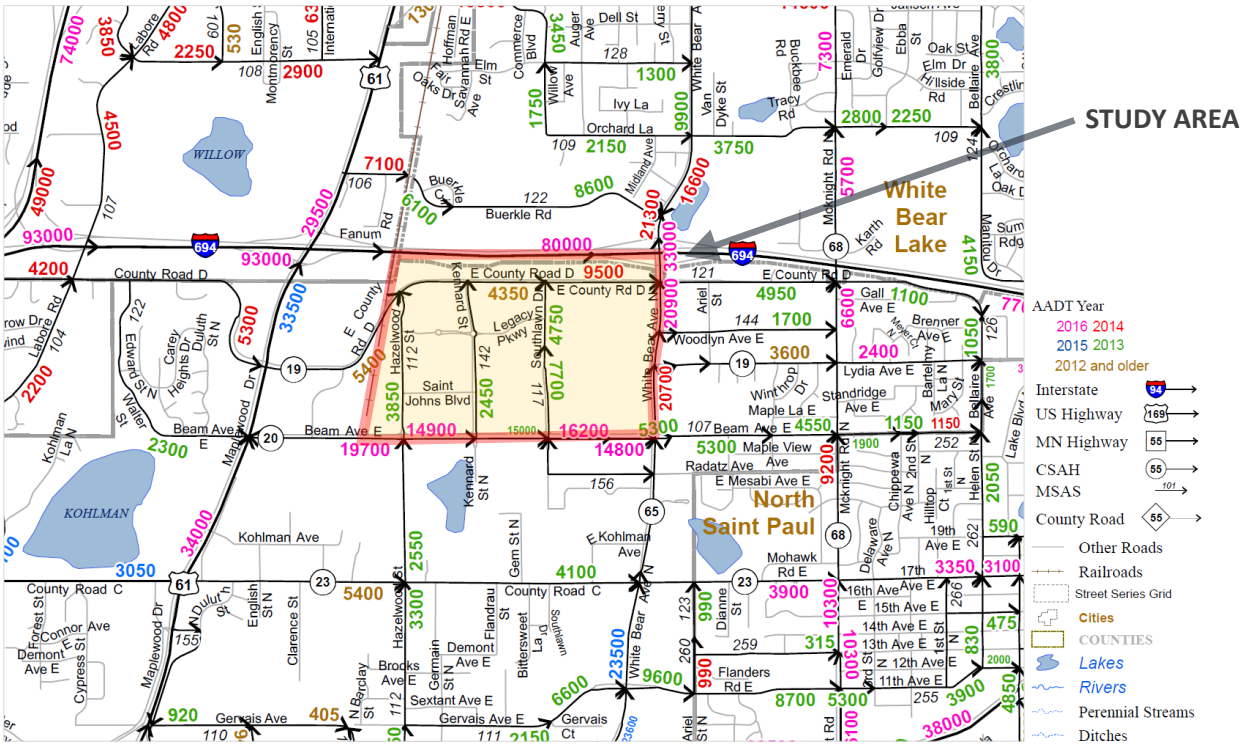
The average annual daily traffic (AADT) on roadways serving the study area are strong: I-694 has 80,000 vehicles per day; White Bear Avenue has roughly 21,000 vehicles per day; Beam Avenue has between 15,000 and 20,000 vehicles per day; and County Road D has between 4,500 and 9,500 vehicles per day. The high traffic counts are due to the presence of Maplewood Mall and St. John's Hospital, which are major traffic generators. As a result, other businesses that benefit from traffic visibility have gravitated to the study area as well.

Although hospitals with emergency rooms have critical accessibility and visibility requirements, most of their functioning is not as sensitive to visibility as compared to retail uses, for example. Streets and roadways that are internal to the study area do not have as high of traffic volumes as those along the periphery. Therefore, if new retail uses were to be developed at locations that are not currently visible

from one or more of the peripheral roadways, there would need to be a significant change in the transportation pattern of the study area to support this type of development.

Although I-694 carries a significant amount of traffic, motorists are unable to see many of the uses in the study area, except for those with immediate frontage along the highway. In particular, Maplewood Mall, despite highway signage directing motorists to the nearest exit, is not visible from I-694. This is in contrast to several other large regional shopping centers in the Twin Cities area that are directly visible from major highways, such as Rosedale (Highway 36), Ridgedale (I-394), Burnsville Center (I-35W), Arbor Lakes (I-94), and Woodbury Lakes (I-94).

Map 2: MnDOT -- Average Annual Daily Traffic (AADT) Volumes



Neighborhood Amenities and Other Nearby Destinations

With over two million square feet of retail space within the study, there is a wide variety of retail goods and services that would appeal to many residents and workers. Furthermore, this variety includes all regional destinations as well as neighborhood-scale retail stores.

In the northwest portion of the study area, there are several trails that link a branch of the Ramsey County Library to Legacy Park, several residential neighborhoods, and the Bruce Vento Trail. Legacy Park is approximately 10 acres in size and consists wetlands, open water, and a trail system. However, there are no other types of park facilities that are part of this park. Some of the residential developments have playgrounds, but these are not public facilities.

Approximately two miles east of the study area is Century College, one of the state's largest two-year community and technical colleges. Roughly six miles to the west along I-694 is a major employment

district that includes numerous large companies, such as Land O'Lakes, Deluxe Corporation, and Boston Scientific.

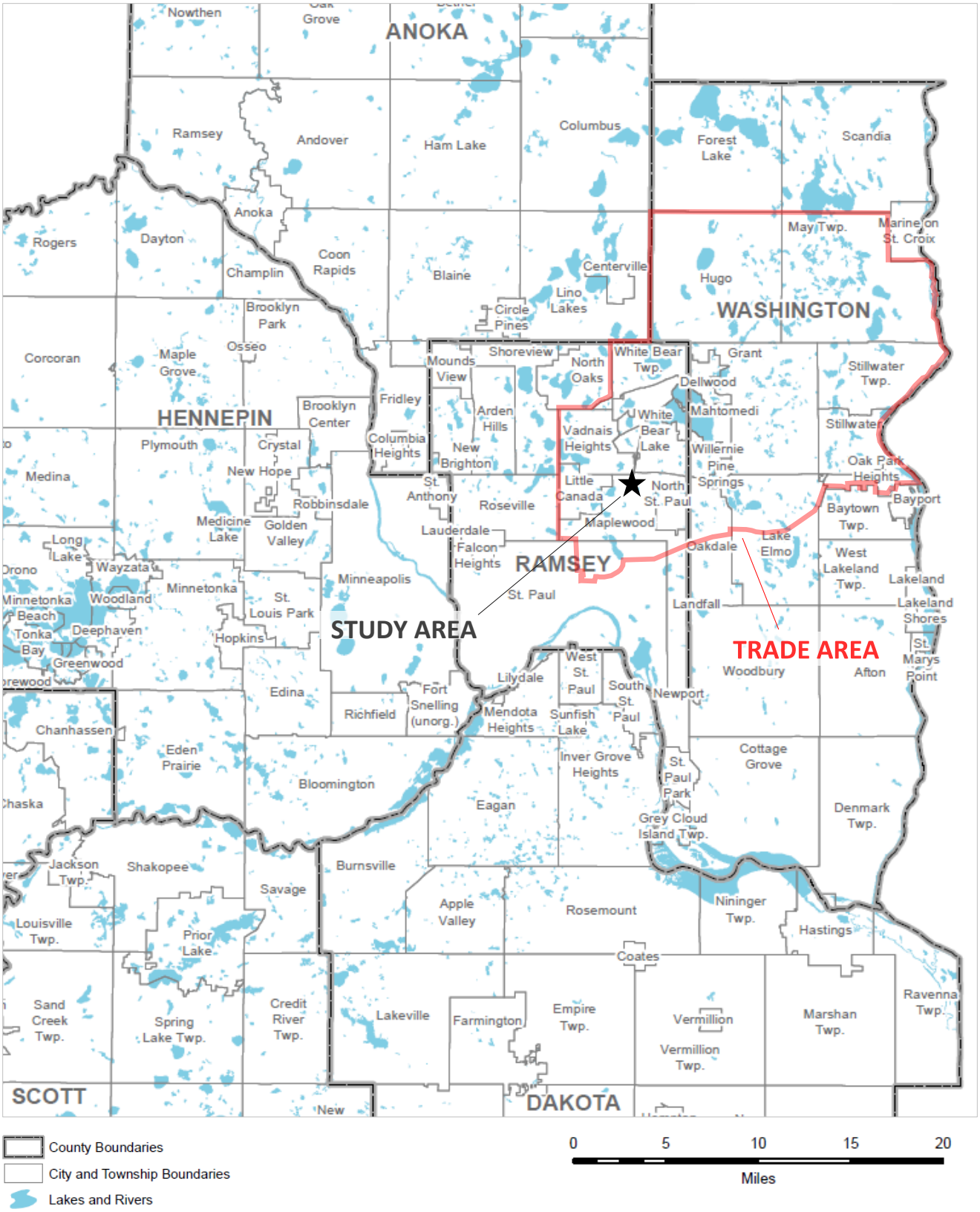
Trade Area Definition

Because the study area contains a variety of uses that draw customers and users from well outside the study area, it is important to define a trade area or catchment area from which to study area demographic and market trends. In other words, a trade area is the geographic extent from which a given store, commercial district, healthcare facility, or new residential development will attract most of its customers.

The trade area for the study area roughly extends 3.5 miles to the south including portions of northeastern St. Paul. It extends 3 miles to the west where Maplewood borders Roseville along Rice Street. It extends 10 miles to the north, including the communities of Hugo and May Township. It extends roughly 11 miles to the east, including the communities of Stillwater and Oak Park Heights.

Important characteristics and/or influences affecting the size and shape of the trade area include the location of competitive regional shopping centers or districts, the location of competitive hospitals or medical districts, the presence of major highways, historic development patterns, and physical and psychological barriers, such as lakes, rivers, railroads, or political boundaries. Map 3 depicts the extent of the trade area.

Map 3: Maplewood North End Trade Area



SOCIO-ECONOMIC ANALYSIS

This section examines the demographic and economic trends influencing the study area by examining data for Maplewood, the study area's trade area (i.e., the geographic extent at which persons would likely travel to the study area for goods, services, and employment), and the Twin Cities Metro Area. Changing demographic and economic trends can signal ways in which the market will likely respond to future demand for housing, retail, and office space.

Population and Households

Table 1 and Figure 2 present data on recent and forecasted population and household growth trends for Maplewood and the trade area as well as the seven-county Twin Cities Metropolitan Area. When estimating the need for future development, it is essential to take into consideration not only recent growth trends but also forecast data in order to gauge the overall demographic demand for new housing, retail space, office space, and other commercial uses. The following are key findings from the presented data:

- Through strategic in-fill and redevelopment, Maplewood grew by roughly 2,800 people (7.8%) and 1,100 households (8.2%) between 2000 and 2010. The rate of growth during this time was similar to the metro area growth rate. According to estimates and forecasts prepared by the Metropolitan Council, Maplewood's rate of population and household growth is currently increasing. Between 2010 and 2020, the city is expected to add roughly 4,100 people and 2,100 households. However, after 2020, the rate of growth is anticipated to remain strong through 2040, but not at the level currently being experienced.
- Growth trends in the trade area are anticipated to be much more consistent through 2040, yet slightly below the rate of growth for Maplewood and the metro area. Between 2010 and 2040, the Metropolitan Council expects the Trade Area to grow by roughly 43,000 people and 25,000 households. This amount of growth, despite cycles in the real estate industry, will drive a certain amount of demand for new development, provided the study area maintains its current role and function as the preeminent activity center of St. Paul's northeast suburbs.

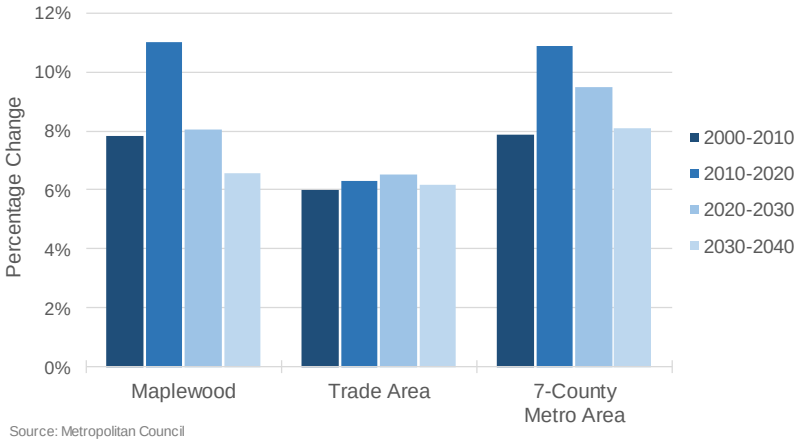
Table 1: Population and Household Growth Trends 2000-2040

						Numeric Change				Percent Change			
Geography	**2000**	**2010**	**2020**	**2030**	**2040**	**'00-'10**	**'10-'20**	**'20-'30**	**'30-'40**	**'00-'10**	**'10-'20**	**'20-'30**	**'30-'40**
Population													
Maplewood	35,258	38,018	42,200	45,600	48,600	2,760	4,182	3,400	3,000	7.8%	11.0%	8.1%	6.6%
Trade Area	198,761	210,710	223,982	238,613	253,309	11,949	13,272	14,631	14,696	6.0%	6.3%	6.5%	6.2%
Metro Area[1]	2,642,062	2,849,567	3,160,000	3,459,000	3,738,000	207,505	310,433	299,000	279,000	7.9%	10.9%	9.5%	8.1%
Households													
Maplewood	13,758	14,882	17,000	18,900	20,300	1,124	2,118	1,900	1,400	8.2%	14.2%	11.2%	7.4%
Trade Area	73,759	80,040	89,794	97,933	105,161	6,281	9,754	8,139	7,228	8.5%	12.2%	9.1%	7.4%
Metro Area[1]	1,021,456	1,117,749	1,264,000	1,402,000	1,537,000	96,293	146,251	138,000	135,000	9.4%	13.1%	10.9%	9.6%

[1] 7-County metro area, which includes the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington

Sources: US Census; Metropolitan Council; Perkins+Will

Figure 1: Population Growth Rate 2000-2040



Source: Metropolitan Council

Age Distribution

The age profile of the population has important ramifications on the demand for new real estate development. For example, the types of housing needed or the types of retail goods and services demanded can be significantly affected by a person's age. Table 2 and Figures 2 and 3 present current and historic data on the age profile of Maplewood, the trade area, and the seven-county Twin Cities Metropolitan Area. Below are key findings from the data:

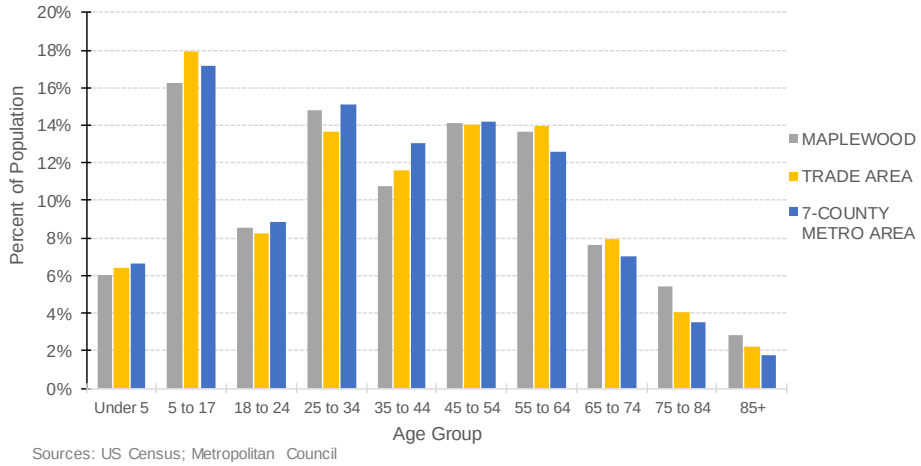
- Maplewood and the trade area have an older population base compared to the metro area. Currently, median age in Maplewood is 39.1 and it is 38.3 in the trade area, whereas in the metro area it is 36.6. However, this has not always been the case. Since 2000, the trade area has experienced a sharp increase in its median age compared to both Maplewood and the metro area. Meanwhile, the median age of Maplewood has actually decreased since 2010 despite an overall trend toward an ever increasing median age.
- When comparing the current age profile of Maplewood and the trade area against the metro area, all of the older age groups (those age 55 and over) tend to make up a higher percentage of the population. Conversely, younger age groups (those under age 55) in both Maplewood and the trade area tend to make up a lower percentage of the population when compared to the metro area. The only exception is the 5-17 age group in the trade area, which has a higher proportion of the population when compared to the metro area.
- Maplewood's recent reversal from an overall aging population to an increasingly youthful profile can be seen in the rate of change for the population age 25-34. This age group grew by over 29% between 2000 and 2016, which is a significantly higher rate than the 17% and 10% growth rates experienced in the trade area and metro area, respectively.

Table 2: Age Distribution of the Population 2000, 2010, and 2016

				Change 2000-2016		Distribution		
Age Group	2000	2010	2016	No.	Pct.	2000	2010	2016
MAPLEWOOD								
Under 5	2,278	2,437	2,388	110	4.8%	6.5%	6.4%	6.0%
5 to 17	6,366	6,288	6,446	80	1.3%	18.2%	16.5%	16.2%
18 to 24	2,692	3,414	3,386	694	25.8%	7.7%	9.0%	8.5%
25 to 34	4,554	5,049	5,883	1,329	29.2%	13.0%	13.3%	14.8%
35 to 44	5,919	4,503	4,276	-1,643	-27.8%	16.9%	11.8%	10.8%
45 to 54	4,828	5,915	5,591	763	15.8%	13.8%	15.6%	14.1%
55 to 64	3,053	4,617	5,414	2,361	77.3%	8.7%	12.1%	13.6%
65 to 74	2,583	2,627	3,036	453	17.5%	7.4%	6.9%	7.7%
75 to 84	1,935	2,071	2,136	201	10.4%	5.5%	5.4%	5.4%
85+	739	1,097	1,122	383	51.8%	2.1%	2.9%	2.8%
Total	34,947	38,018	39,678	4,731	13.5%	100.0%	100.0%	100.0%
Median Age	*37.8*	*39.3*	*39.1*	*1.3*	--	--	--	--
TRADE AREA								
Under 5	13,898	14,384	14,125	227	1.6%	7.0%	6.8%	6.4%
5 to 17	41,888	38,719	39,548	-2,340	-5.6%	21.1%	18.4%	17.9%
18 to 24	16,515	18,406	18,154	1,639	9.9%	8.3%	8.7%	8.2%
25 to 34	25,748	27,537	30,174	4,426	17.2%	13.0%	13.1%	13.7%
35 to 44	34,530	25,855	25,677	-8,853	-25.6%	17.4%	12.3%	11.6%
45 to 54	28,328	33,329	30,983	2,655	9.4%	14.3%	15.8%	14.0%
55 to 64	16,138	26,165	30,767	14,629	90.6%	8.1%	12.4%	13.9%
65 to 74	11,460	13,485	17,446	5,986	52.2%	5.8%	6.4%	7.9%
75 to 84	7,812	8,749	9,011	1,199	15.3%	3.9%	4.2%	4.1%
85+	2,444	4,081	4,872	2,428	99.3%	1.2%	1.9%	2.2%
Total	198,761	210,710	220,757	21,996	11.1%	100.0%	100.0%	100.0%
Median Age	*35.4*	*37.4*	*38.3*	*2.9*	--	--	--	--
7-COUNTY METRO AREA								
Under 5	188,236	194,329	197,695	9,459	5.0%	7.1%	6.8%	6.6%
5 to 17	509,298	506,631	512,516	3,218	0.6%	19.3%	17.8%	17.2%
18 to 24	244,226	263,462	263,829	19,603	8.0%	9.2%	9.2%	8.9%
25 to 34	411,155	420,311	451,226	40,071	9.7%	15.6%	14.7%	15.1%
35 to 44	469,324	391,324	389,735	-79,589	-17.0%	17.8%	13.7%	13.1%
45 to 54	363,592	440,753	424,039	60,447	16.6%	13.8%	15.5%	14.2%
55 to 64	200,980	326,007	374,166	173,186	86.2%	7.6%	11.4%	12.6%
65 to 74	130,615	163,425	209,589	78,974	60.5%	4.9%	5.7%	7.0%
75 to 84	90,292	97,442	104,304	14,012	15.5%	3.4%	3.4%	3.5%
85+	34,338	45,883	51,723	17,385	50.6%	1.3%	1.6%	1.7%
Total	2,642,056	2,849,567	2,978,822	336,766	12.7%	100.0%	100.0%	100.0%
Median Age	*34.2*	*36.0*	*36.6*	*2.4*	--	--	--	--

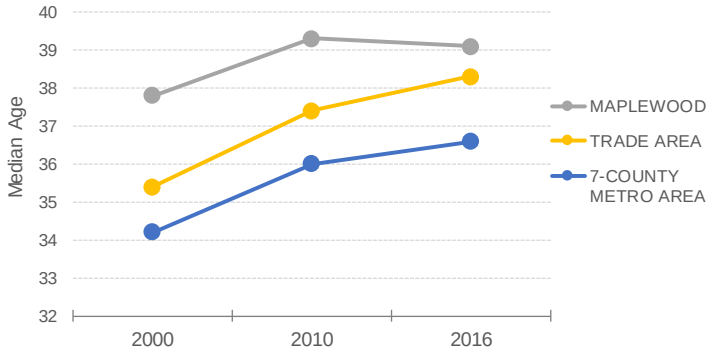
Sources: US Census; Metropolitan Council; Perkins+Will

Figure 2: Age Distribution 2016



Sources: US Census; Metropolitan Council

Figure 3: Median Age 2000, 2010, and 2016



Sources: US Census; Perkins+Will

Household Type

Changing family and household structures can also have a profound effect on housing and other community needs. For example, decreasing household size has a direct impact on the amount of housing a household needs. Also, the presence of children not only impacts local schools and parks but also the types of retailers that can be supported and the nature of housing demanded. Table 3 and Figures 4 and 5 present data on household type for Maplewood, the trade area, and the metro area. The following are key findings from the data:

- Compared to the metro area, both Maplewood and the trade area have a higher percentage of married couple households without children, single-parent households, and other family households. Conversely, they both have a lower percentage of married couple households with children, single-person households, and roommate households.
- Since 2000, Maplewood has experienced a significant increase in the number of other family and roommate households and a significant decline in married couple households with children. Meanwhile the change in household types in the trade area has been very consistent to the metro-wide experience. The only difference would be a significant decline in the number of married couple households with children, which is similar to the Maplewood.

- As illustrated in Figure 5, the percentage of households with children, which would include married couple households and single-parent households, declined sharply from 2000 to 2010 in Maplewood, the trade area, and the metro area. Since 2010, however, both the trade and the metro area have seen an increase in the percentage of households with children, while this household type remained the same in Maplewood.

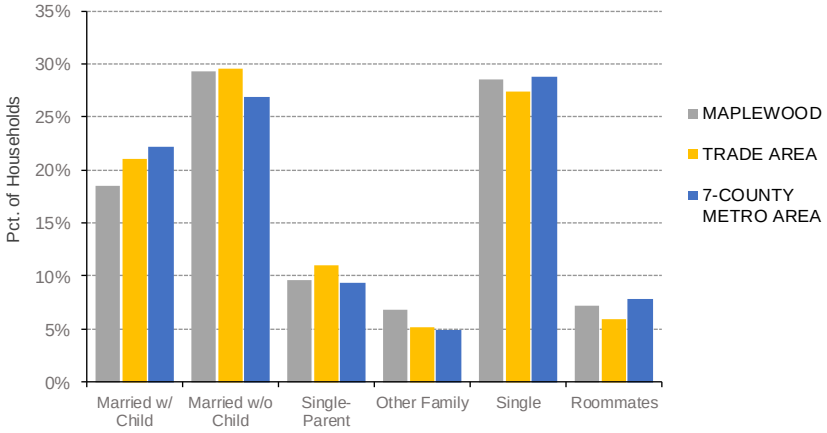
Table 3: Household Type 2000, 2010, and 2016

				Change '00-'16		Distribution		
Household Type	2000	2010	2016	Number	Percent	2000	2010	2016
MAPLEWOOD								
Married, w/children	3,231	2,755	2,798	-433	-13.4%	23.5%	18.5%	18.5%
Married, no children	4,037	4,354	4,449	412	10.2%	29.3%	29.3%	29.4%
Single-parent family	1,120	1,402	1,448	328	29.3%	8.1%	9.4%	9.6%
Other family*	803	1,109	1,036	233	29.0%	5.8%	7.5%	6.8%
Single	3,709	4,338	4,322	613	16.5%	27.0%	29.1%	28.5%
Roommate	858	924	1,100	242	28.2%	6.2%	6.2%	7.3%
Total Households	13,758	14,882	15,153	1,395	10.1%	100%	100%	100%
TRADE AREA								
Married, w/children	19,519	16,883	17,480	-2,039	-10.4%	26.5%	21.1%	21.0%
Married, no children	20,639	23,820	24,564	3,925	19.0%	28.0%	29.8%	29.5%
Single-parent family	6,934	7,855	9,153	2,219	32.0%	9.4%	9.8%	11.0%
Other family*	4,174	5,392	4,304	130	3.1%	5.7%	6.7%	5.2%
Single	18,149	21,208	22,803	4,654	25.6%	24.6%	26.5%	27.4%
Roommate	4,344	4,882	4,894	550	12.7%	5.9%	6.1%	5.9%
Total Households	73,759	80,040	83,198	9,439	12.8%	100%	100%	100%
7-COUNTY METRO AREA								
Married, w/children	256,655	244,687	257,254	599	0.2%	25.1%	21.9%	22.2%
Married, no children	263,626	298,723	311,813	48,187	18.3%	25.8%	26.7%	26.9%
Single-parent family	84,246	95,127	108,992	24,746	29.4%	8.2%	8.5%	9.4%
Other family*	53,632	68,959	56,200	2,568	4.8%	5.3%	6.2%	4.9%
Single	281,086	319,030	333,284	52,198	18.6%	27.5%	28.5%	28.8%
Roommate	82,209	91,223	89,998	7,789	9.5%	8.0%	8.2%	7.8%
Total Households	1,021,454	1,117,749	1,157,541	136,087	13.3%	100%	100%	100%

* Other Family households consist of households with adult siblings, parents with adult children, or householders with parents

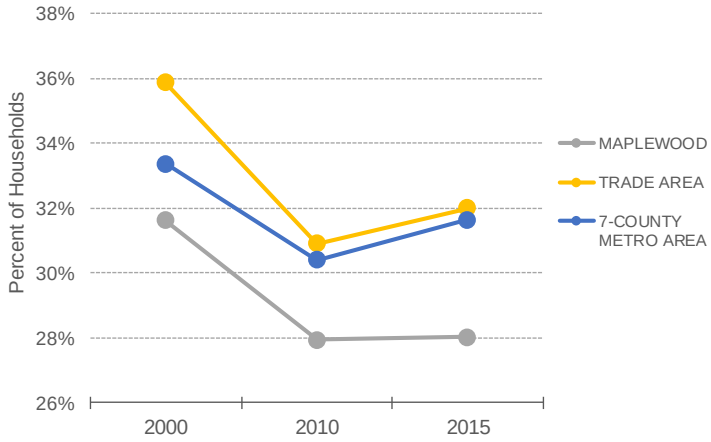
Source: US Census

Figure 4: Household Type 2016



Source: US Census

Figure 5: Households with Children 2000, 2010, and 2016



Source: US Census

Household Tenure

Housing tenure is important to track because it provides insight into the potential of a community to respond to a changing age profile or shocks to the economy, such as a recession. For example, many older households often transition out of homeownership into rental housing as they require more assistance with activities of daily living. Table 4 and Figures 6 and 7 provide detailed information of housing tenure in Maplewood, the trade area, and the metro area. Below are key findings from the data:

- Compared to the broader region, Maplewood and the trade area have a higher rate of homeownership. Roughly 72 percent of Maplewood households and 73 percent of trade area households own their housing. By comparison, across the metro area 68 percent of households own their housing.
- Homeownership is lowest among younger households, which typically do not have enough savings to afford a down payment nor enough income to qualify for a mortgage. However, homeownership rapidly increases as households reach their peak earning years. Once households begin to retire, though, homeownership starts to decline.

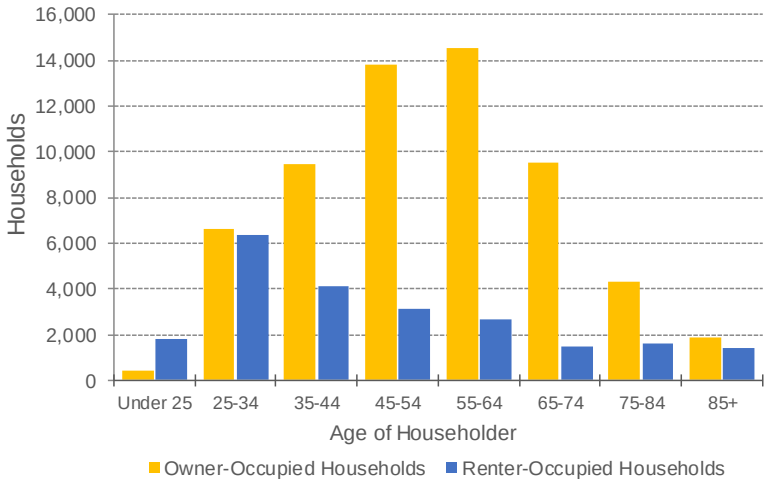
- Since the housing bust and recession of the late 2000s, homeownership has declined throughout the metro area and in Maplewood and the trade area. Younger age groups have accounted for most of this decline. In particular, households age 35 to 44 have retreated from homeownership in a big way. In 2000, 82 percent of households in this age group in Maplewood owned their housing. In 2016, the rate had declined to 66 percent. Similar declines were experienced in the trade area (-11%) and the metro area (-10%).

Table 4: Household Tenure by Age 2000, 2010, and 2016

	2000			2010			2016			Numeric Change '00-'16			Percent Change '00-'16		
Age Group	Total	Rent	Own	Total	Rent	Own	Total	Rent	Own	Total	Rent	Own	Total	Rent	Own
MAPLEWOOD															
Under 25	558	450	108	529	407	122	458	328	130	-100	-122	22	-18%	-27%	20%
25-34	2,158	805	1,353	2,209	939	1,270	2,275	1,009	1,266	117	204	-87	5%	25%	-6%
35-44	3,240	581	2,659	2,365	663	1,702	2,291	768	1,523	-949	187	-1,136	-29%	32%	-43%
45-54	2,777	370	2,407	3,300	588	2,712	3,072	552	2,520	295	182	113	11%	49%	5%
55-64	1,828	199	1,629	2,756	433	2,323	2,939	381	2,558	1,111	182	929	61%	91%	57%
65-74	1,590	266	1,324	1,620	253	1,367	1,968	406	1,562	378	140	238	24%	53%	18%
75-84	1,243	456	787	1,380	366	1,014	1,336	408	928	93	-48	141	7%	-11%	18%
85+	364	212	152	723	362	361	814	429	385	450	217	233	124%	102%	153%
All HHs	13,758	3,339	10,419	14,882	4,011	10,871	15,153	4,281	10,872	1,395	942	453	10%	28%	4%
TRADE AREA															
Under 25	3,122	2,413	709	2,823	2,221	602	2,267	1,836	431	-855	-577	-278	-27%	-24%	-39%
25-34	11,954	4,500	7,454	12,045	5,135	6,910	13,006	6,371	6,635	1,052	1,871	-819	9%	42%	-11%
35-44	18,831	3,637	15,194	13,658	3,649	10,009	13,588	4,142	9,446	-5,243	505	-5,748	-28%	14%	-38%
45-54	16,275	2,157	14,118	18,785	3,478	15,307	16,975	3,155	13,820	700	998	-298	4%	46%	-2%
55-64	9,571	1,134	8,437	15,553	2,254	13,299	17,191	2,675	14,516	7,620	1,541	6,079	80%	136%	72%
65-74	7,212	1,165	6,047	8,480	1,265	7,215	10,973	1,459	9,514	3,761	294	3,467	52%	25%	57%
75-84	5,310	1,563	3,747	5,887	1,528	4,359	5,925	1,632	4,293	615	69	546	12%	4%	15%
85+	1,484	703	781	2,809	1,335	1,474	3,273	1,427	1,846	1,789	724	1,065	121%	103%	136%
All HHs	73,759	17,272	56,487	80,040	20,865	59,175	83,198	22,697	60,501	9,439	5,425	4,014	13%	31%	7%
7-COUNTY METRO AREA															
Under 25	56,489	46,699	9,790	49,736	41,789	7,947	42,612	37,518	5,094	-13,877	-9,181	-4,696	-25%	-20%	-48%
25-34	205,413	91,342	114,071	201,952	99,716	102,236	211,268	113,996	97,272	5,855	22,654	-16,799	3%	25%	-15%
35-44	262,167	58,438	203,729	213,981	59,303	154,678	210,232	68,381	141,851	-51,935	9,943	-61,878	-20%	17%	-30%
45-54	213,167	36,077	177,090	253,783	51,379	202,404	240,698	52,796	187,902	27,531	16,719	10,812	13%	46%	6%
55-64	120,788	18,205	102,583	196,950	34,355	162,595	220,911	43,185	177,726	100,123	24,980	75,143	83%	137%	73%
65-74	82,521	14,491	68,030	103,345	17,998	85,347	128,819	22,791	106,028	46,298	8,300	37,998	56%	57%	56%
75-84	60,685	17,109	43,576	66,268	16,185	50,083	67,931	16,235	51,696	7,246	-874	8,120	12%	-5%	19%
85+	20,224	10,127	10,097	31,734	14,549	17,185	35,070	15,396	19,674	14,846	5,269	9,577	73%	52%	95%
All HHs	1,021,454	292,488	728,966	1,117,749	335,274	782,475	1,157,541	370,298	787,243	136,087	77,810	58,277	13%	27%	8%

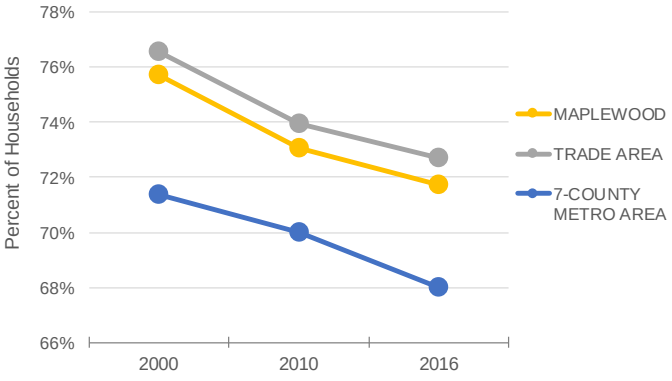
Source: US Census

Figure 6: Tenure by Age of Householder – Trade Area 2016



Source: US Census: 2012-2016 American Community Survey

Figure 7: Homeownership Rate 2000, 2010, and 2016



Source: US Census

Household Income

Household income is important to track, because it is strongly correlated with age and directly affects the spending power of area residents and their ability to support retail and afford new forms of housing. Table 5 and Figures 8 through 12 present data on the median household incomes of Maplewood, the trade area, and metro area. The following are key findings from the data:

- The 2016 median household income for Maplewood was just over $63,000 and for the trade area it was just under $68,000. These medians are below the metro area median income of $71,100.
- Household income peaks between the ages of 45 and 64. This is not surprising, since higher wages are correlated with years of working experience.
- The percentage change in median household income in Maplewood was below the metro area rate of change from 2000 to 2010. Since 2010, however, Maplewood's change in median income has kept pace with the metro area rate of change. For the trade area, the rate of change in the median income has consistently been just below that of the metro area since 2000.

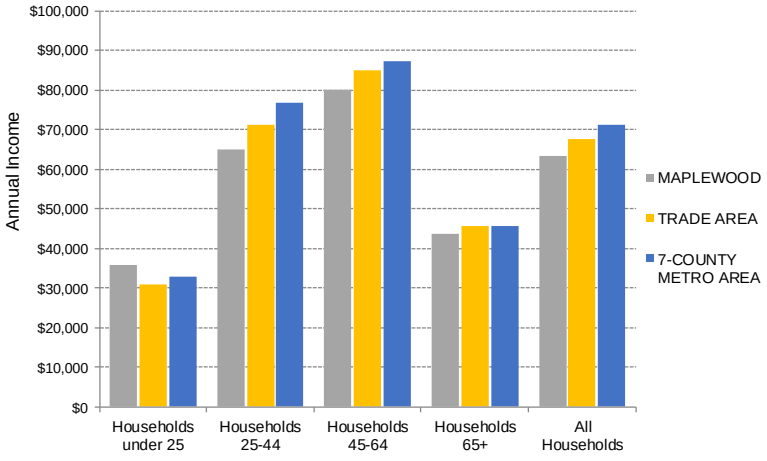
- Figures 9 through 12 help illustrate how the median income for younger households has not kept up with older households. For instance, in 2000 trade area households under age 25 had a median income that was roughly equivalent to $56 for every $100 earned among all households in the metro area. The ratio dropped to $43 by 2016. Conversely, households 65 and older in the trade area saw their equivalent median income increase from $55 in 2000 to $64 in 2016.

Table 5: Median Household Income by Age 2000, 2010, and 2016

				% Change	
Household Age	2000	2010	2016	'00-'10	'10-'16
MAPLEWOOD					
Households under 25	$30,787	$32,917	$35,875	6.9%	9.0%
Households 25-44	$59,966	$63,050	$64,909	5.1%	2.9%
Households 45-64	$64,764	$76,625	$80,014	18.3%	4.4%
Households 65+	$29,104	$38,646	$43,774	32.8%	13.3%
All Households	$51,596	$57,438	$63,367	11.3%	10.3%
TRADE AREA					
Households under 25	$30,891	$31,964	$30,847	3.5%	-3.5%
Households 25-44	$57,543	$65,792	$71,349	14.3%	8.4%
Households 45-64	$66,999	$76,438	$84,803	14.1%	10.9%
Households 65+	$29,877	$38,071	$45,563	27.4%	19.7%
All Households	$53,516	$61,871	$67,727	15.6%	9.5%
7-COUNTY METRO AREA					
Households under 25	$29,818	$32,159	$32,752	7.9%	1.8%
Households 25-44	$58,616	$69,652	$76,775	18.8%	10.2%
Households 45-64	$67,861	$77,813	$87,314	14.7%	12.2%
Households 65+	$31,233	$38,589	$45,827	23.6%	18.8%
All Households	$54,807	$64,471	$71,113	17.6%	10.3%

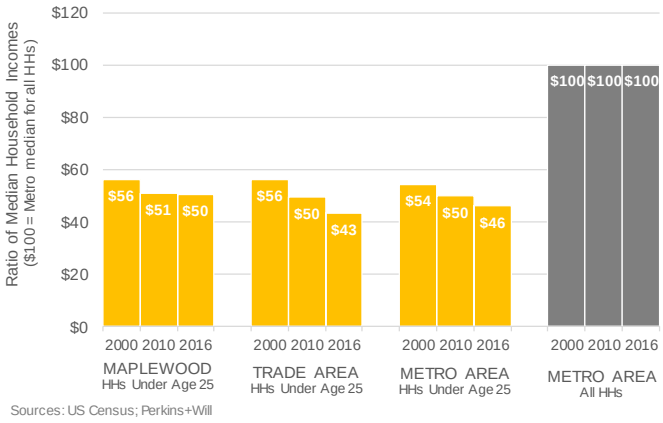
Sources: US Census; Perkins+Will

Figure 8: Median Household Income by Age of Householder 2016



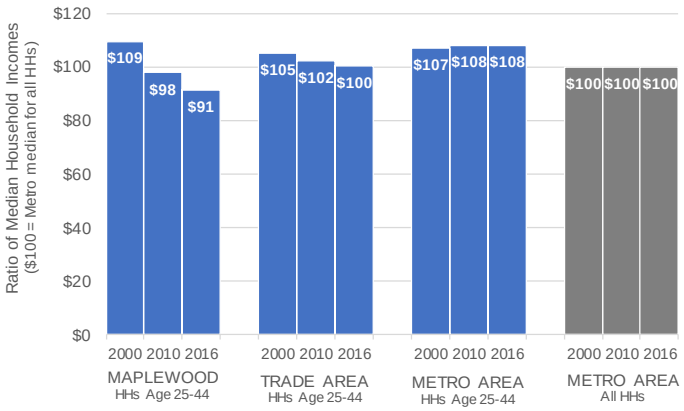
Source: US Census

Figure 9: Change in Median Household Income for Households Under Age 25 in Constant Dollars



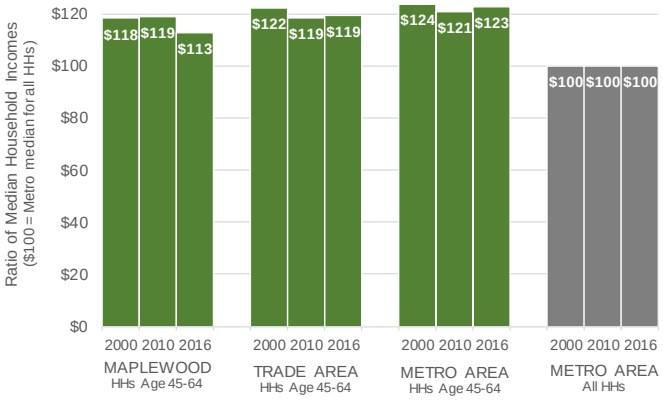
Sources: US Census; Perkins+Will

Figure 10: Change in Median Household Income for Households Age 25 to 44 in Constant Dollars



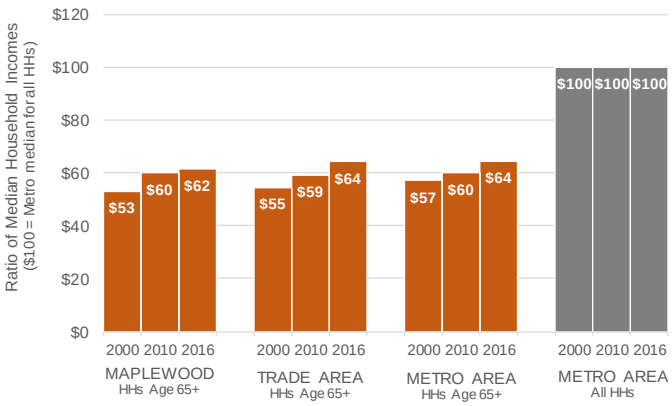
Sources: US Census; Perkins+Will

Figure 11: Change in Median Household Income for Households Age 45 to 64 in Constant Dollars



Sources: US Census; Perkins+Will

Figure 12: Change in Median Household Income for Households Age 65 and Older in Constant Dollars



Sources: US Census; Perkins+Will

HOUSING MARKET

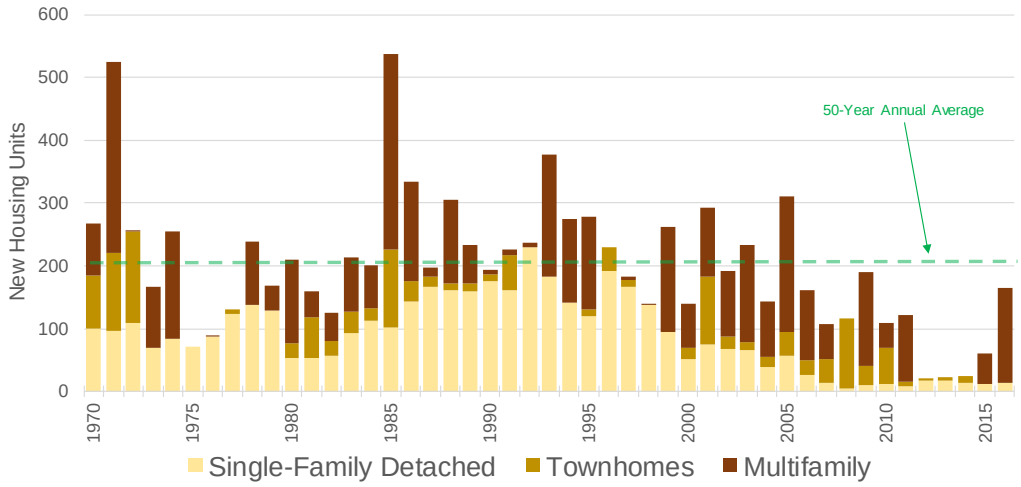
This chapter analyzes the current and foreseeable condition of the housing market in and near the Study Area. It considers various housing types, recent development trends, and the ability of the current supply to meet market demand.

Residential Development Trends

Figures 13 and 14 present data from the Metropolitan Council on the number of residential building permits issued in Maplewood and metro area between 1970 and 2016. The 45+ year dataset provides insight into the macro cycles of overall residential development and by type of structure. Typically, growing communities with large tracts of vacant land will experience large scale single-family development first and then, as land becomes scarcer, they will experience multifamily development. Once a community is mostly built out, then residential development becomes almost entirely multifamily due to the cost of redeveloping properties. The following are key findings from the data:

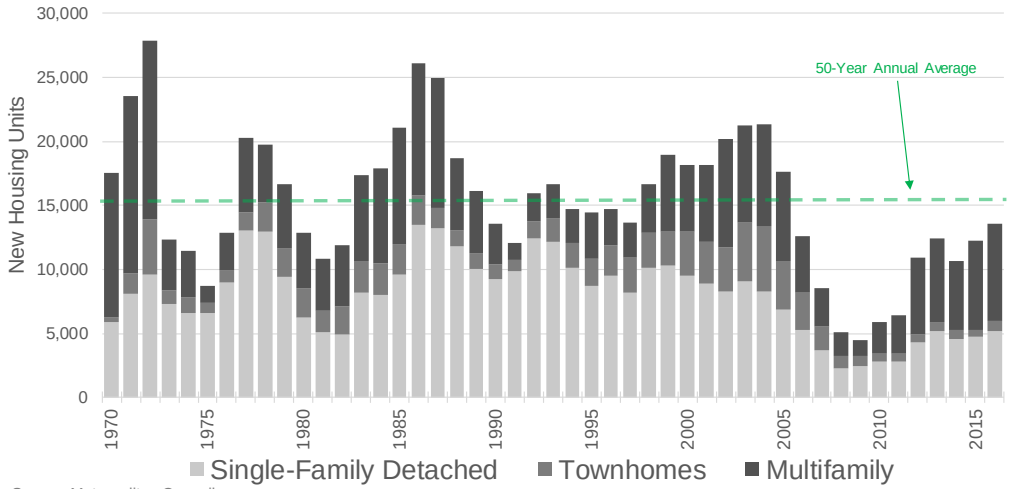
- Since 1970, the annual average of residential units permitted for construction in Maplewood has been 202. The city's major development periods have been the early 1970s, the late 1980s/early 1990s when single-family homes dominated, and the early 2000s when multifamily housing became dominant.
- Except for a handful of years in the mid 1970s and late 1990s, residential development in Maplewood has included a healthy mix of single-family homes and multifamily homes. Since the early 2000s, except for the recession years when almost no home construction was occurring, multifamily housing has been the most common structure type.
- Since the 1970s Maplewood has generally followed metro-wide market cycles with respect to housing construction. The two important differences with the metro area trend have been Maplewood's transition to mostly multifamily construction and its lack of a market rebound over the last four to five years. Both of these conditions are likely tied to the decreasing supply of readily developable sites.
- Since about 2002, the metro area trend has consistently had a higher proportion of multifamily construction versus single-family construction. This is counter to long-term terms, which have clearly ebbed and flowed from one structure to the other. This is notable in that, unlike Maplewood, metro-wide there is typically a ready supply of undeveloped land to accommodate single-family construction. The persistence of this pattern may represent a cultural shift as much as an economic shift away from single-family housing styles.

Figure 13: Maplewood Residential Development 1970-2016 by Structure Type



Source: Metropolitan Council

Figure 14: 7-County Metro Area Residential Development 1970-2016 by Structure Type



Source: Metropolitan Council

Rental Housing

APARTMENT VACANCY AND RENT TRENDS

The apartment market has been strong over the last several years; Maplewood, the communities surrounding Maplewood, and have all had an apartment vacancy rate at or below five percent since 2012.

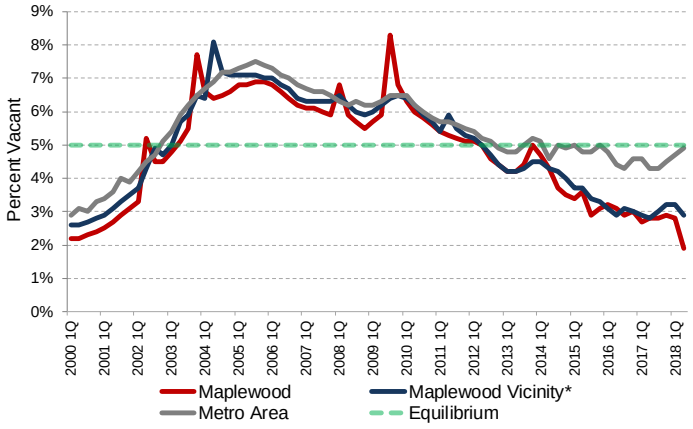
When apartment vacancies average five percent, the market is considered to be in "equilibrium," which means there is enough supply for most renters to find adequate housing, while at the same time enough renters for landlords to be profitable and in a position to reinvest into their properties in order for them to remain in good condition and be marketable. Vacancies below five percent indicate a tight market in which rents are likely to increase at rates well above other household costs. Typically, such low vacancies are an indicator that enough excess demand exists in the market to support new construction,

provided prevailing target market incomes can afford rents needed to cover the cost of new construction.

Figures 15 and 16 clearly illustrate the relationship between vacancy and rents. In late 2011 and early 2012, when the vacancy rate in the metro area and Maplewood dropped below five percent, average monthly rents began to increase. Since 2010, the average asking rent in the metro area has increased from $889 to $1,208, a 36 percent increase. The sharpest rent increases, however, occurred since 2015 and 2016 where the annual change was over five percent. Although annual rent increases have slowed slightly since 2016, they still have been averaging around four percent per year. Pent-up demand explains much of the increase, but another contributing factor to the increase in rents is the effect of new luxury rental properties, which put upward pressure on average rents.

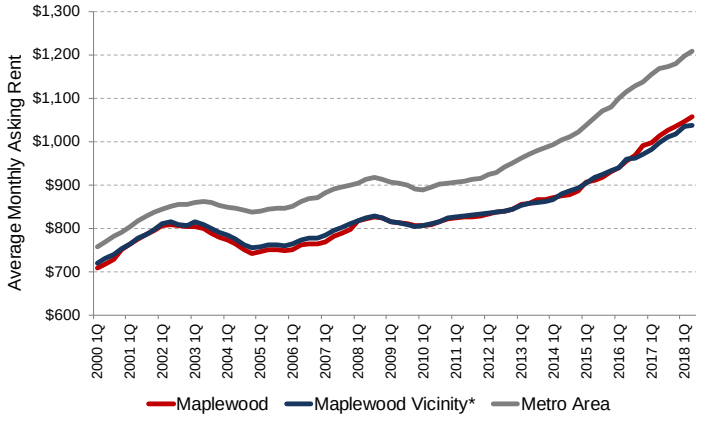
In Maplewood and surrounding communities, rents have increased substantially as well since 2010 (nearly 29%). However, the story is slightly different. Due to the lack of new rental housing, increases in rents have been almost entirely driven by pent-up demand. Although this has meant a delay in experiencing rapid rent increases, it nevertheless is now impacting the local market. Between 2016 and 2017, the average rent in the area increased 6.2 percent after years of increases that oscillated between 1-2 percent. Because of limited new construction and a delay in rent increases, the overall average rent in Maplewood is $1,037, which is about 14 percent below the metro area average. However, in 2010 there was only a nine percent difference in the average rent.

Figure 15: Market Rate Rental Housing Vacancy Rate 2000-2018



* Includes communities adjacent to Maplewood
Source: CoStar

Figure 16: Market Rate Rental Average Monthly Asking Rent 2000-2018



* Includes communities adjacent to Maplewood
Source: CoStar

It should be noted, though, that some of the demographic trends mentioned earlier regarding homeownership rates may profoundly impact the apartment market. Evidence appears to be growing that younger age groups are not embracing homeownership the way previous generations did. First, mortgage standards have returned to more stringent levels where the barrier to entry is much higher due to substantially larger down payments that are required on the part of mortgagors. Second, with housing no longer seen as a "safe" investment due to the housing bust, the nest egg that so many previous generations created through homeownership is no longer seen as attainable. Third, many younger households are now saddled with tremendous student debt and qualifying for, much less affording, a mortgage is much more difficult than compared to previous generations. Finally, with an increasingly digital-based economy, gone are the expectations that one works for a single employer for

most of their career. Therefore, homeownership can be viewed as reducing employment flexibility which further depresses demand for for-sale housing. As a result, younger households are starting to choose rental housing as a preferred arrangement rather than a temporary situation prior to homeownership.

If these trends persist or become deeply established, the demand for rental housing could remain high for many years. These trends, however, are difficult to predict because of the large impact federal policies have on homeownership. For instance, if the federal government revamps Fannie Mae and Freddie Mac, the two big institutions that help support homeownership, that help loosen lending standards, homeownership may again regain its value to younger generations. Conversely, it is still unclear how recent changes to federal tax code regarding the mortgage interest deduction affect the for-sale and rental markets.

COMPETITIVE REVIEW

A review of competitive market rate rental properties was conducted in two parts. First, data was gathered for 11 "newer" market rate properties in Maplewood and surrounding communities in order to gauge the condition and quality of the most competitive properties to any new potential residential development in the study area. These properties are profiled in Table 6 and their locations are shown on Map 4. Due the minimal number of recently developed properties in the trade area (only two market rate properties have been developed in the last 10 years), the area of focus was expanded to include Woodbury and the I-694 corridor westward to the Mississippi River.

Because many of the competitive properties in Table 6 are more than 10 years old, a second review was conducted for market rate properties developed in suburban locations throughout the metro area that are in close proximity to a regional shopping center or retail district. This additional analysis is to provide a better indication of what the market is currently achieving in terms of pricing and product positioning, especially when a property is integrated into a suburban activity center. These properties are profiled in Table 7 and are also shown on Map 4. Below are key findings from the tables:

Maplewood Area Competitive Rental Properties

- The newest property featured in Table 6 is Conifer Ridge, which opened in early 2018 and is located in the study area. Conifer Ridge represents the best test of the market for new market rate apartments in the study area. According to CoStar, a national commercial real estate database, Conifer Ridge has already absorbed 120 units since its opening. According to the property's website, average rent per square foot is $1.70, which puts it slightly above other newer developments in the northeast metro area. With a total of 150 units, the development includes a club house with a pool and fitness center.
- The only other property profiled in Maplewood is Birch Glen, which is located less than a ¼-mile east of the study area at the intersection of County Road D and Ariel Street. Birch Glen was built in 2002 and is a smaller development (60 units) compared to newer properties, and thus lacks some of the amenities and features desired by today's market. Moreover, its large unit types (there are no 1BR units in the development) and overall square footages (there are a dozen 3BR units with nearly 1,300 sf) means the average rent per square foot is below $1.20, which is on the low end of newer competitive rental properties.
- The most expensive property featured in Table 6, Boatworks Commons in White Bear Lake, was built in 2015 and has by far the highest average rents both in terms of monthly fee and on a per square foot basis. The average rent per square foot is $2.10. This property has a view of White Bear Lake and is within walking

distance of downtown White Bear Lake, which features a number of restaurants and small shops in a pedestrian-oriented environment. The proximity to these amenities and the forward looking design of the property helps account for the higher rents.

- Of the 11 Maplewood area properties profiled, there are a total of 1,568 units. The unit mix is generally split equally between one-bedroom and two-bedroom units with a nominal number of studios and three-bedroom units.
- One-bedroom units range in rent from $1,021 to $1,561 with an average of $1,295. Unit sizes range from 690 to 1,069 square feet with an average of 840 square feet, which translates to an overall average rent per square foot of $1.54.
- Two-bedroom units range in rent from $1,287 to $2,514 with an average of $1,610. Unit sizes range from 1,000 to 1,302 square feet with an average of 1,208 square feet, which translates to an overall average rent per square foot of $1.33.
- All of the properties profiled are located in close proximity to a major arterial highway.
- The 10 properties that have reached full occupancy have a vacancy rate of 6.1 percent, which is above the Maplewood submarket vacancy rate (2.9%) and the metro area vacancy rate (4.9%). Although the vacancy rate of profiled properties is above equilibrium, half of those profiled have a vacancy rate below equilibrium. Furthermore, it is common that the newest and most expensive properties in the market will have higher vacancy rates than the market-wide vacancy rate because these properties are in a position to test just how much the market is willing to pay for an apartment.

Table 6: Comparable Market Rate Apartments in Maplewood and Nearby Communities

11

Cedric's Landing
5680 Hadley Ave N
Oakdale, MN 55128

Building

Type	4 Star Multi-Family Apartments		
# of Units	267	Year Built	2004
Avg. Unit Size	902 SF	Land Area	363,290 SF
Property Size	341,928 SF	Parking Spaces	575 Spaces
Stories	3		
Vacancy Rate	1.2%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
Studio	26	528	$904	$1.71	0.3%
1	174	839	$1,154	$1.37	0.3%
2	67	1,210	$1,458	$1.21	0.5%
Totals	267	902	$1,207	$1.34	0.4%

12

Lakewood Place
3100 Glen Oaks Ave
White Bear Lake, MN 55110

Building

Type	3 Star Multi-Family Apartments		
# of Units	60	Year Built	2003
Avg. Unit Size	1,066 SF	Land Area	227,819 SF
Property Size	85,398 SF	Parking Spaces	65 Spaces
Stories	3		
Vacancy Rate	3.8%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
1	12	714	$1,021	$1.42	0.3%
2	45	1,132	$1,345	$1.19	0.5%
3	3	1,473	$1,620	$1.10	1.0%
Totals	60	1,066	$1,279	$1.22	0.5%

13

Boatworks Commons
4495 Lake Ave S
White Bear Lake, MN 55110

Building

Type	4 Star Multi-Family Apartments		
# of Units	85	Year Built	Apr 2015
Avg. Unit Size	875 SF	Parking Spaces	231 Spaces
Property Size	160,016 SF		
Stories	4		
Vacancy Rate	7.5%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
1	60	764	$1,561	$2.04	0.8%
2	25	1,142	$2,514	$2.20	2.8%
Totals	85	875	$1,842	$2.10	1.6%

14

Birch Glen Apts
3100 Ariel St N
Maplewood, MN 55109

Building

Type	4 Star Multi-Family Apartments		
# of Units	60	Year Built	2002
Avg. Unit Size	1,105 SF	Land Area	138,521 SF
Property Size	86,898 SF	Parking Spaces	60 Spaces
Stories	3		
Vacancy Rate	3.5%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
2	48	1,066	$1,287	$1.21	0.5%
3	12	1,261	$1,449	$1.15	0.8%
Totals	60	1,105	$1,319	$1.19	0.5%

15

Conifer Ridge
3090 Hazelwood St
Maplewood, MN 55109

Building
# of Units: 150 Year Built: 2018
Avg. Unit Size: 800 SF
Property Size: 160,000 SF
Stories: 3
Vacancy: 20%

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF
Studio	10	670	$1,009	$1.51
1	80	690	$1,325	$1.92
2	60	1,000	$1,550	$1.55

16

Crown Villa Apts
7260 Guider Dr
Woodbury, MN 55125

Building

Type	3 Star Multi-Family Apartments		
# of Units	126	Year Built	2008
Avg. Unit Size	934 SF	Parking Spaces	60 Spaces
Property Size	115,785 SF		
Stories	3		
Vacancy Rate	5.3%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
1	78	776	$1,201	$1.54	0.7%
2	48	1,190	$1,538	$1.29	0.5%
Totals	126	934	$1,331	$1.42	0.6%

17

City Walk at Woodbury
10225 City Walk Dr
Woodbury, MN 55129

Building

Type	4 Star Multi-Family Apartments		
# of Units	453	Year Built	Apr 2011
Avg. Unit Size	1,190 SF	Land Area	217,891 SF
Property Size	874,220 SF	Parking Spaces	300 Spaces
Stories	4		
Vacancy Rate	7.7%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
1	159	901	$1,324	$1.47	6.9%
2	272	1,302	$1,669	$1.28	1.5%
3	22	1,890	$2,053	$1.09	5.1%
Totals	453	1,190	$1,568	$1.32	3.3%

8

Regency Hill
10751 Retreat Ln
Woodbury, MN 55129

Building

Type	4 Star Multi-Family Apartments		
# of Units	38	Year Built	2006
Avg. Unit Size	1,222 SF	Parking Spaces	68 Spaces
Property Size	46,835 SF		
Stories	4		
Vacancy Rate	1.6%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
1	3	1,069	$1,241	$1.16	0.3%
2	35	1,235	$1,453	$1.18	0.4%
Totals	38	1,222	$1,436	$1.18	0.4%

9

Lakeview Terrace
3595 Owasso St
Shoreview, MN 55426

Building

Type	4 Star Multi-Family Apartments		
# of Units	104	Year Built	Oct 2014
Avg. Unit Size	1,056 SF		
Property Size	120,000 SF		
Stories	6		
Vacancy Rate	16.1%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
1	62	942	$1,377	$1.46	1.0%
2	42	1,224	$1,888	$1.54	1.0%
Totals	104	1,056	$1,583	$1.50	1.0%

10

The View at Long Lake
1300 Northwest Pkwy
New Brighton, MN 55112

Building

Type	4 Star Multi-Family Apartments		
# of Units	124	Year Built	Jul 2012
Avg. Unit Size	1,078 SF	Land Area	174,240 SF
Property Size	174,088 SF	Parking Spaces	202 Spaces
Stories	4		
Vacancy Rate	4.4%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
Studio	3	578	$1,070	$1.85	0.6%
1	67	920	$1,434	$1.56	0.5%
2	46	1,255	$1,730	$1.38	0.5%
3	8	1,565	$2,420	$1.55	1.0%
Totals	124	1,078	$1,599	$1.48	0.6%

11

Cielo
6051 University Ave
Fridley, MN 55432

Building

Type	3 Star Multi-Family Apartments		
# of Units	101	Year Built	Feb 2016
Avg. Unit Size	1,028 SF		
Property Size	169,244 SF		
Stories	4		
Vacancy Rate	8.5%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
Studio	5	622	$1,094	$1.76	0.0%
1	36	868	$1,248	$1.44	0.0%
2	49	1,116	$1,500	$1.34	0.0%
3	11	1,345	$1,989	$1.48	0.0%
Totals	101	1,028	$1,443	$1.40	0.0%

Comparable Suburban Rental Properties Near Regional Shopping Centers or Districts

- Eight properties were profiled that have been built since 2014. Three are located in the Arbor Lakes retail district in Maple Grove. Three are located in the Southdale retail district in Edina. One is located in the Ridgedale retail district in Minnetonka. One is located adjacent to the Twin Cities Premium Outlets center in Eagan.
- All of the properties are market rate developments, except for Bottineau Ridge, which is income-restricted property located in the Arbor Lakes area.

- The average rent for the market rate properties is $1,537 for a one-bedroom unit or $1.81 per square foot and $2,230 for a two-bedroom unit or $1.81 per square foot. These rents are significantly higher than those profiled in Table 6. This is because Table 6 includes a number of properties more than 10 years. It is also because the west and south metro tends to support slightly higher rents than the east or north metro. Nevertheless, it does support the notion that properties located in areas with a mixture of uses (i.e., retail, employment, recreation, and housing) in close proximity easily accessible can support higher rents than properties not as connected to a mix of uses.
- The unit mix at the comparable properties in Table 7 includes a much higher percentage of one-bedroom units versus two-bedroom units. This is somewhat due, again, to the overall newer age of the properties, which, regardless of location, are skewing toward smaller unit types. However, it is also indicative of the fact that areas with a concentration of uses and activities are achieving higher rents, which creates demand for smaller units. It should be noted, though, that in the central cities this dynamic has led to overall smaller square footages as well as a higher percentage of smaller unit types. In the suburban context, though, developers have yet to test the market with overall smaller unit sizes regardless of the type.
- The vacancy rate of properties in Table 7 is 7.9 percent, which is above equilibrium. Much of this can be explained by temporary saturation in the Maple Grove and Edina markets, where multiple developments are competing with one another. In both markets, nearly 700 new market rate units need to be absorbed at some of the highest rents among the suburban markets. Moreover, as noted previously, properties achieving such high rents are testing the limits of the market and thus are making investment decisions assuming equilibrium is higher than 5.0 percent.

Table 7: Comparable Market Rate Apartments Recently Developed in Suburban Retail Districts

1121

The Reserve at Arbor Lakes
11650 Arbor Lakes Pkwy
Maple Grove, MN 55369

Building

Type	4 Star Multi-Family Apartments		
# of Units	212	Year Built	Apr 2018
Avg. Unit Size	705 SF	Land Area	1,730,787 SF
Property Size	300,000 SF		
Vacancy Rate	90.0%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
Studio	189	659	$1,465	$2.22	0.0%
1	12	876	$1,715	$1.96	8.3%
2	10	1,278	$2,296	$1.80	0.0%
3	1	1,631	$2,810	$1.72	0.0%
Totals	212	705	$1,525	$2.16	0.5%

1131

Skye at Arbor Lakes
11851 Central Park Way
Maple Grove, MN 55369

Building

Type	4 Star Multi-Family Apartments		
# of Units	469	Year Built	Feb 2015
Avg. Unit Size	1,075 SF	Land Area	1,241,024 SF
Property Size	540,806 SF	Parking Spaces	300 Spaces
Stories	4		
Vacancy Rate	10.0%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
1	326	939	$1,431	$1.52	1.0%
2	143	1,385	$1,978	$1.43	1.0%
Totals	469	1,075	$1,598	$1.49	1.0%

1141

Bottineau Ridge
11875 80th Ave N
Maple Grove, MN 55369

Building

Type	4 Star Multi-Family Apartments		
# of Units	50	Year Built	Oct 2014
Avg. Unit Size	1,059 SF	Land Area	334,976 SF
Property Size	75,000 SF		
Stories	3		
Vacancy Rate	3.2%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
1	6	723	$776	$1.07	0.3%
2	24	1,028	$931	$0.91	0.5%
3	20	1,198	$1,070	$0.89	0.5%
Totals	50	1,059	$968	$0.91	0.5%

1151

71 France
7161 France Ave S
Edina, MN 55435

Building

Type	4 Star Multi-Family Apartments		
# of Units	241	Year Built	Sep 2015
Avg. Unit Size	943 SF	Parking Spaces	200 Spaces
Property Size	196,800 SF		
Stories	6		
Vacancy Rate	10.6%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
Studio	63	588	$1,507	$2.56	0.0%
1	49	790	$1,641	$2.08	0.4%
2	62	1,033	$2,278	$2.20	0.0%
3	67	1,303	$3,617	$2.78	0.0%
Totals	241	942	$2,319	$2.46	0.1%

1161

Onyx Edina
6725 York Ave S
Edina, MN 55435

Building

Type	4 Star Multi-Family Apartments		
# of Units	240	Year Built	Dec 2016
Avg. Unit Size	965 SF		
Property Size	169,400 SF		
Stories	6		
Vacancy Rate	8.9%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
Studio	10	634	$1,309	$2.07	0.0%
1	135	792	$1,561	$1.97	1.0%
2	86	1,217	$2,657	$2.18	0.0%
3	9	1,524	$3,789	$2.49	0.0%
Totals	240	965	$2,027	$2.10	0.5%

1171

One Southdale Place
6800 York Ave S
Edina, MN 55435

Building

Type	4 Star Multi-Family Apartments		
# of Units	232	Year Built	Sep 2014
Avg. Unit Size	918 SF	Land Area	206,148 SF
Property Size	450,100 SF	Parking Spaces	150 Spaces
Stories	10		
Vacancy Rate	6.6%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
Studio	18	574	$1,388	$2.42	0.0%
1	134	808	$1,643	$2.03	4.2%
2	79	1,177	$2,536	$2.15	0.0%
3	1	1,433	$3,792	$2.65	0.7%
Totals	232	918	$1,937	$2.11	2.1%

1181

Flats at Cedar Grove
3825 Cedar Grove Pkwy
Eagan, MN 55122

Building

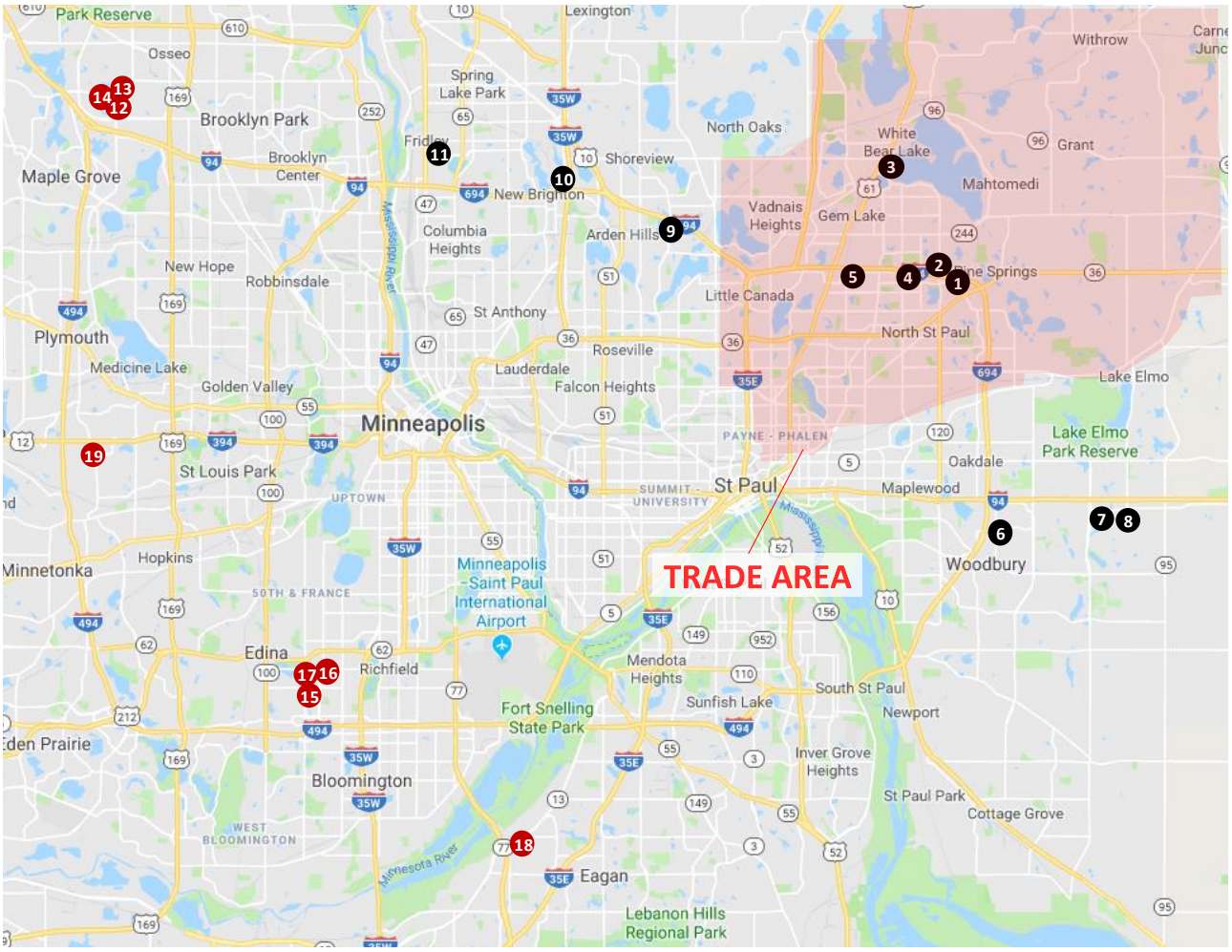
Type	5 Star Multi-Family Apartments		
# of Units	192	Year Built	2015
Avg. Unit Size	1,001 SF	Land Area	209,088 SF
Property Size	300,748 SF		
Stories	4		
Vacancy Rate	2.5%		

Unit Mix

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
1	96	765	$1,359	$1.78	4.5%
2	76	1,152	$1,708	$1.48	3.2%
3	20	1,562	$2,325	$1.49	2.6%
Totals	192	1,001	$1,598	$1.60	3.7%

1191 **The Shops at 1700** 1700 Plymouth Rd Minnetonka, MN 55305		**Building** Type: 4 Star Multi-Family Apartments # of Units: 115 — Year Built: Mar 2017 Avg. Unit Size: 964 SF Property Size: 150,000 SF Stories: 6 Vacancy Rate: 5.5% **Unit Mix** Beds / Units / Avg SF / Asking Rent/Unit / Asking Rent/SF / Concessions Studio 6 533 $1,362 $2.55 0.0% 1 52 781 $1,593 $2.04 0.0% 2 57 1,177 $2,307 $1.96 0.0% Totals 115 964 $1,935 $2.01 0.0%

Map 4: Competitive and Comparable Market Rate Apartment Properties



For-Sale Housing

SALES PRICE AND SALES VOLUME TRENDS

From the late 1990s until the mid-2000s, the for-sale housing market experienced unprecedented growth fueled by historically low mortgage interest rates, new mortgage products that reduced down payments, and favorable demographics. By 2007 and especially 2008, it became evident that

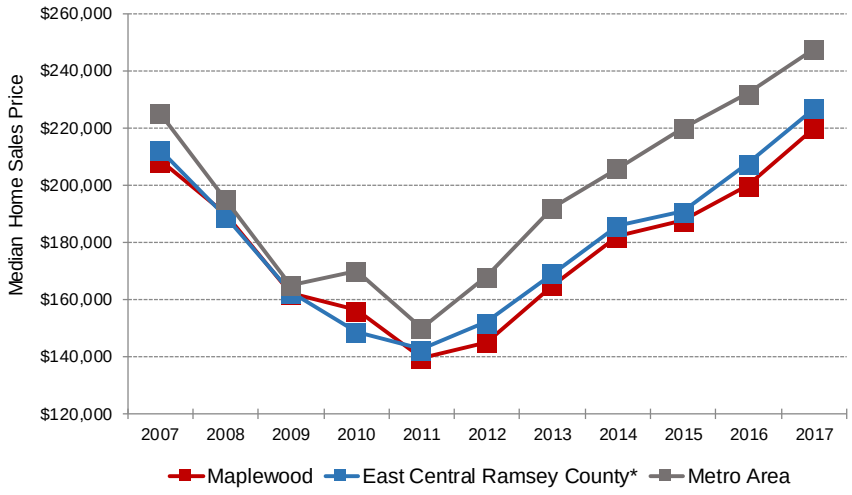
overheated demand had resulted in a housing bubble that once it crashed caused declines in housing values not seen since the Great Depression 80 years earlier. Prices in many markets, saw declines as sharp as 50 percent or more. In Maplewood, the median home sales price peaked at $222,000 in 2006 before falling to $139,400 by 2011, a 37 percent decline (Figure 17).

Pricing trends in Maplewood and surrounding communities have generally mirrored those of the metro area. The 2017 median sales price in Maplewood was $219,999, which is not quite back to the 2006 peak price. Across the metro area, the median sales price exceeded the 2006 peak ($230,000) in 2016 and as of 2017 is $247,900. It should be noted that year-end median sales price figures will not be available for another six to seven months. However, due to low inventory and continued job growth throughout the region, home prices have been rising rapidly. Year-over-year data, indicate that prices in 2018 will likely grow by eight to nine percent over 2017.

Sales volumes have also improved dramatically in recent years, which further indicates the overall strength of the current for-sale housing market. Figure 18 illustrates how the volume of sales in both Maplewood and metro area bottomed out along with prices around 2011 and yet is now exceeding pre-recession volume of sales.

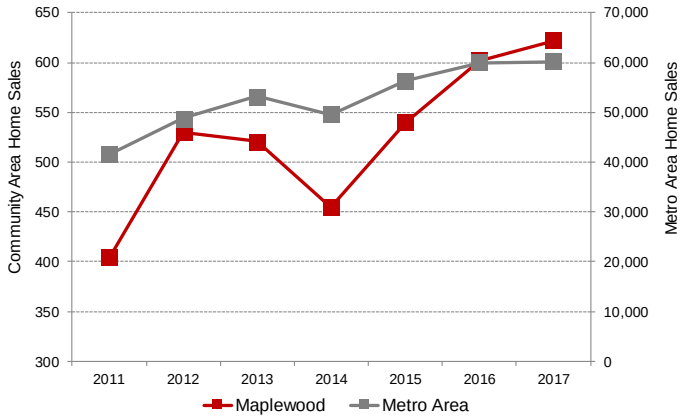
Another indicator to gauge the for-sale market is the number of average number of days a home is on the market. In Figure 19, the average number of days a home is on the market has dropped significantly since the bottom of housing bust and is now just above 40 days in Maplewood and around 50 days across the metro area. Rapid sales means there is not enough supply of homes for sale to meet demand. This is one of the reasons why prices have been rising rapidly in recent years.

Figure 17: Median Home Sales Price 2005-2017



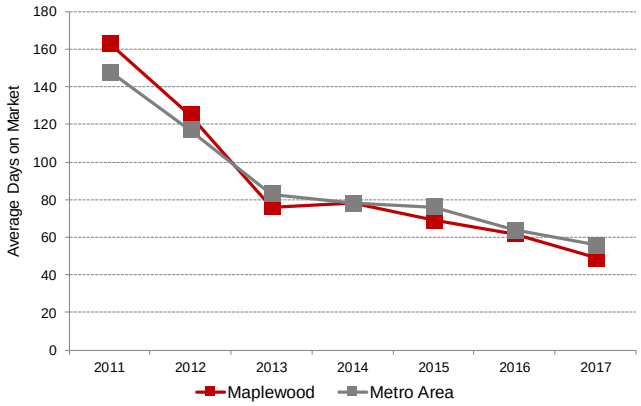
* Includes the cities of Maplewood, Little Canada, North St. Paul, and White Bear Lake
Sources: Minneapolis Area Association of Realtors; Perkins+Will

Figure 18: Number of Home Sales 2011-2017



Sources: Minneapolis Area Association of Realtors; Perkins+Will

Figure 19: Average Days on Market 2011-2017



Sources: Minneapolis Area Association of Realtors; Perkins+Will

RETAIL MARKET

Retail is one of the most competitive and fluid real estate market sectors. Existing stores are constantly being challenged by new concepts, locations and competitors. Turnover is common and tenants and landlords must constantly be listening to the market and making strategic reinvestments or tenant mix changes to ensure their centers are vibrant and profitable.

It is important to monitor this constant market change to ensure that the total size of available retail space is in line with retail demand. When available retail space is beyond the size that can be supported by market demand, vacancies become more common. For retail areas dependent on a large retailer, such as a mall or center, this can be amplified by a "domino effect" caused by the common practice of co-tenancy, where one tenant's lease requirements are tied to the condition that another tenant remains active in the area.

Excess retail supply also puts downward pressure on lease rates, which can reduce the cash flow available to landlords for making the strategic reinvestments necessary for their property to remain competitive. This can lead to an overall decline in retail quality and can lead to negative impacts that can be a community concern.

The other reason to monitor the size of the retail market is to prevent an overly restrictive retail environment. When a community does not provide sufficient retail area to satisfy market demand, then the variety of retail options available to its customers may be reduced and economic activity is diverted to other retail districts or communities.

It is, therefore, important that communities attempt to find a balance between the amount of retail development and retail market demand.

Retail Typologies

The design of retail districts in urban areas has changed significantly during the 20th century, expanding from walkable town centers to auto-oriented shopping centers to the diverse types of retail centers we see today. Many of the changes have been linked to metropolitan growth patterns, changes in urban transportation systems – including the rising dominance of the automobile – and evolving retailing technologies.

One result of this change is that communities have inherited a mix of current and older retail centers that vary in economic performance and physical character. Whether a retail location is older, such as a downtown, or brand new, there is a promising opportunity to create pedestrian-friendly uses by adopting urban design approaches that emphasize links to local neighborhoods, walkability, transit access, complementary land uses, and natural amenities.

A clear understanding of the form and dynamics of retail centers is helpful when positioning them in a community. They can vary dramatically based on:

- Physical size
- Built form

- Metropolitan location
- Transportation access
- Size of trade area
- Mix of services and tenants
- Presence of competing centers

Many forces can affect the performance of retail districts over time:

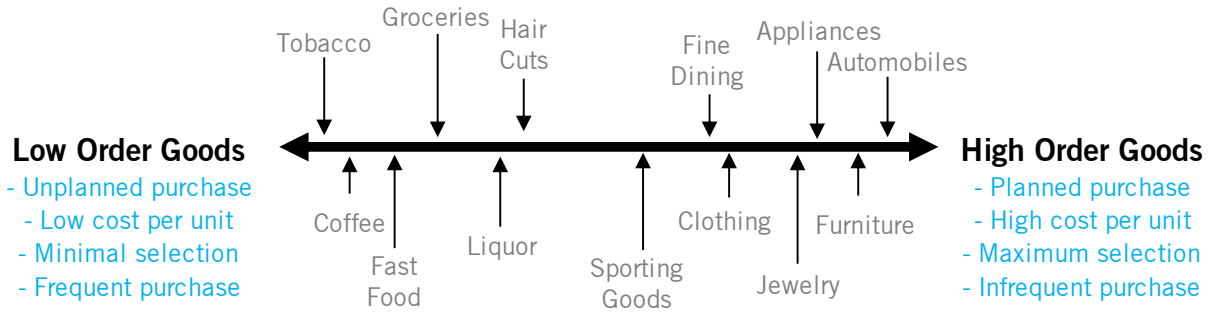
- Changes in the regional transportation system can alter the relative situation of districts (e.g., freeway or transit station proximity).
- A boom in construction of retail centers during the 1960s-1980s resulted in an overbuilt retail market in many communities today.
- Aging retail centers often need major renovation, expansion, or repositioning to be competitive.
- Changing demographics in the trade area may reduce buying power or create a market mismatch for a retail district.
- Smaller retail districts often lack space for expansion and struggle to compete with areas that can accommodate stores that are increasingly larger (e.g., supermarkets and discount stores).
- Competition can increase due to new and expanding retail districts within five miles.
- Diversification of shopping center types with new formats and popular tenants increases the competitive challenge.

The area from which a retail district draws the majority of its business is known as the trade area. The boundary for a trade area is determined by many factors, but mostly by the location of the next closest district offering a similar complement of goods and services. Ideally, the trade area for a given district has no other competitors for several miles in each direction, giving the district the strong advantage of convenience to the households and employers surrounding it. In reality, travel routes and intervening land uses (e.g., large rail yards with no crossings) often make one district more convenient than another retail district that is closer "as the crow flies."

Determining the trade area around a retail district depends on the amount of goods and services it can offer to the surrounding household base; the level of offering is usually related to the size of the district and the order of goods and services available.

Goods are often classified on a relative scale from lower order to higher order goods. Lower order goods are those goods that consumers need frequently and, therefore, are willing to travel only short distances for them. Higher order goods are needed less frequently, so consumers are willing to travel farther for them. These longer trips are usually undertaken not only for purchasing purposes but other activities as well. Figure 20 demonstrates where some of the common goods and services might fall along this continuum.

Figure 20: Hierarchy of Common Retail Goods and Services



It is also important to keep in mind that retail trade areas vary considerably, depending on surrounding housing density and the attraction of the specific retail tenants. Stores in higher-density areas can thrive with smaller trade areas.

RELATIONSHIP BETWEEN RETAIL DEMAND AND DEMOGRAPHICS

Retailers capture sales from five main categories of consumers: residents, daily workers, commuters, intermittent (transitory) visitors, and destination shoppers. Of these, residents are usually the main source of income for most retailers.

In general, neighborhood retailers perform best when they are surrounded by "rooftops," rather than simply trying to capture drive-by traffic. The strongest retail locations do a bit of both; they serve the residents living in the surrounding area and, because they are located on high-traffic streets, they capture business from commuters, intermittent visitors, and daily workers.

Resident Consumers

- Spend, on average, between 10-20 percent of household income at local retailers (not including auto spending); this is far more per capita and per-trip than other consumer types.
- Support a wider variety of retail goods and personal services than daily workers or transitory visitors; everything from haircuts to hardware to prescriptions.

Daily Workers

- Spend a fraction on local retail compared to residents but can be regular customers for restaurants, coffee shops, and other specific retailers.
- Generally, limit their spending time to the working hours during Monday-Friday.
- Spend in narrow categories such as restaurants and convenience/gas.

Intermittent Visitors

- Are difficult to predict but can be significant sources of business to retailers located on major thoroughfares with good access.

Commuters

- Do not generate high levels of patronage for most retail tenants.
- Like daily workers, can become regular customers for specific retailers such as coffee shops or convenience/gas stations.

Destination Shoppers

- Will drive significant distances and make special trips to shop at specific stores.
- Can be loyal customers for the retailers they patronize.
- May often spend a substantial amount of money at one visit, or over the course of a year.

Given that residents (the consumer unit being a "household") generate the bulk of income for most retailers, the alignment between the demographic characteristics of the surrounding population and the tenant mix of a retail district is crucial. In an ideal world, the mix of tenants at a retail district would satisfy all of the regular needs of the surrounding population.

For example, a strip retail center located adjacent to a subdivision of starter homes with young families would offer such tenants as a grocery store, a hardware store, a drugstore/pharmacy, and family restaurants among others. A retail center in an inner-city urban area with few families would offer

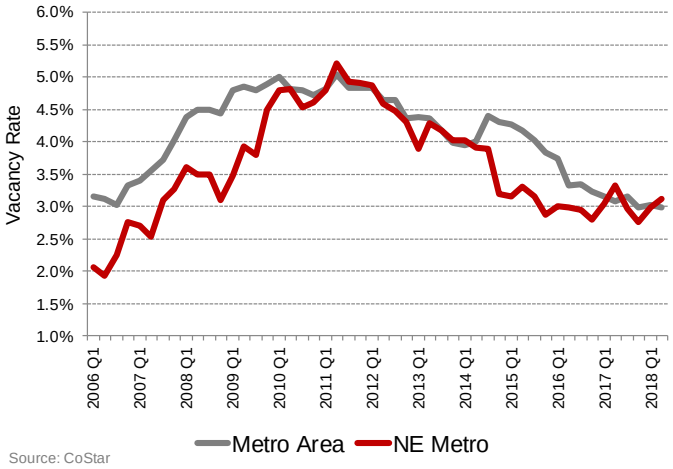
independent coffee shops, bookstores, niche restaurants with bars, and other specialty stores catering to singles and professionals.

Vacancy and Rent Trends

Retail vacancy and lease rates were analyzed for the northeast metro, which consists of northeastern Ramsey County and northern Washington County, and compared against the rates for the entire metro area (Figures 21 and 22). The following are key findings from the figures:

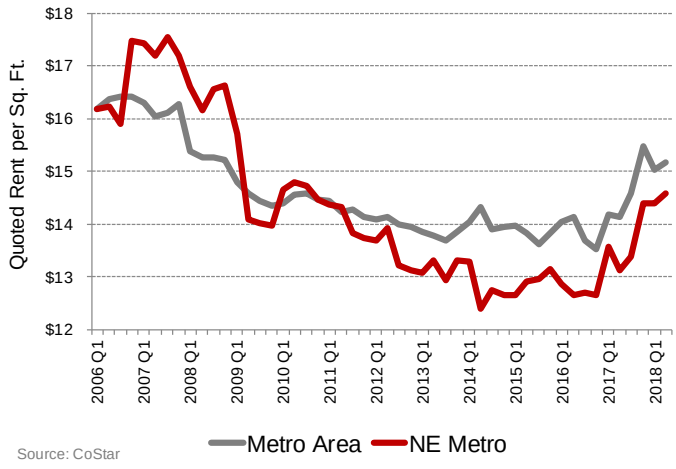
- The retail vacancy rate for the northeast metro is currently 3.1 percent, which almost the same vacancy rate as the metro area. Since 2006, the northeast metro has consistently had a vacancy rate at or below that of the metro area.
- In 2011, retail vacancy in the northeast metro and the entire metro area, peaked at a little over 5.0 percent. This was due to combination of rapid expansion of the retail supply during the early 2000s and recession-driven closure of many retail businesses. As the economy recovered and construction slowed down significantly, vacancy has generally been on the decline for several years. However, based on the data, it appears that the vacancy rate in the northeast metro has stabilized around 3.0 percent.
- Quoted lease rates for retail space in the northeast metro are currently just over $14.50 per square foot. Quoted lease rates have been climbing steadily since late 2016 after several years of decline dating back to 2007 and the start of the recession. This pattern generally follows what has occurred metro-wide with respect to trends in quoted lease rates. The only difference has been that the northeast metro tends to slightly higher highs and lower lows than the entire metro area.
- The sluggish rate of increase in quoted rents, despite dropping vacancies and an improving economy, can also be attributed to traditional bricks and mortar retailers that are struggling to position themselves in an increasingly digital world and a commensurate demand for online retailing. As a result, there is a lot of uncertainty in the marketplace and property owners are finding it difficult to raise rents in such a climate, especially for long-term leases.

Figure 21: Retail Vacancy Trends 2006-2018



Source: CoStar

Figure 22: Average Quoted Retail Lease Rates 2006-2018

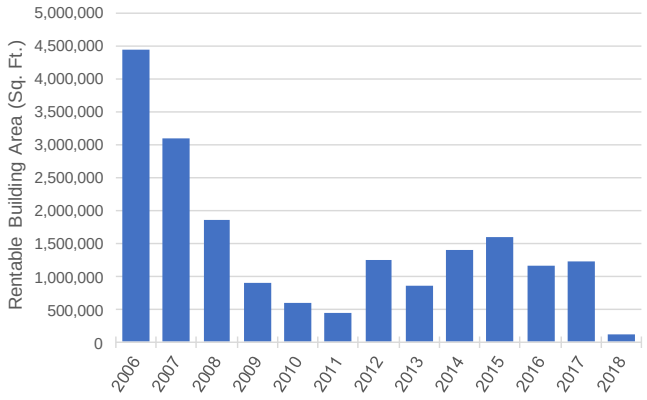


Source: CoStar

Retail Development Trends

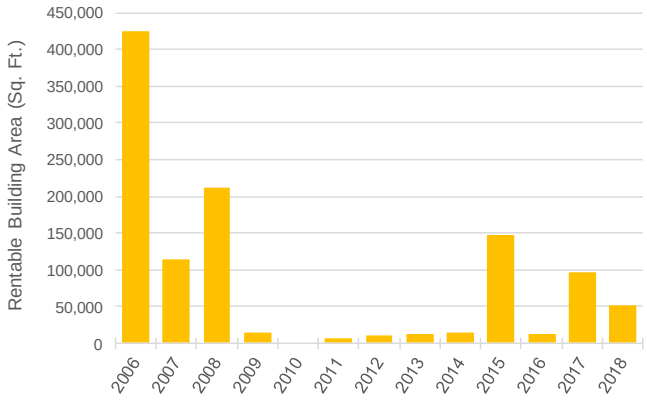
Annual construction of new retail space was analyzed across the metro area and for the northeast metro. Based on data from CoStar, Figures 23 and 24 illustrate how retail construction declined dramatically when the recession began in the late 1990s both across the metro area and in the northeast metro. However, unlike housing, retail development has not significantly rebounded in the 10 years since the recession. The reasons for the lack of a rebound in development are likely similar to why lease rates for retail are not increasing more rapidly in light of lower vacancy and an improved economy. Simply put, shopping patterns are shifting and the existing supply of retail space is not meeting the needs of today's consumer.

Figure 23: Metro Area Annual Retail Development (sq ft)



Sources: CoStar; Perkins+Will

Figure 24: Northeast Metro Annual Retail Development (sq ft)



Sources: CoStar; Perkins+Will

Mall District Analysis

Maplewood Mall anchors a retail district that contains nearly 2.3 million square feet of retail space, including a wide array of prominent national retailers such as Macy's, Kohl's, JC Penney, Barnes and Noble, Best Buy, HOM Furniture, Costco, Sam's Club, Marshall's, to name a few. Given the household incomes within the trade area, retailers in and adjacent to the study area tend to cater more to shoppers interested in value pricing as opposed to more luxury or status-driven goods.

Based on the location of competitive retail districts, the trade area generally includes northeastern Ramsey County and northern Washington County. Map 5 shows the location of the trade area relative to other important clusters of retail properties. From the map, one can see how large swaths of the trade area lack any sizable retail properties. This is largely due to the fact that residential development in these portions of the trade area is at a low enough density to not support any critical mass of retail space.

As a regional shopping district, the study area and its environs competes with other regional shopping districts. Map 5 also shows how the largest retail properties, those over 250,000 square feet are almost always situated along a major highway or, in particular, at a crossroads of two major highways. This is because the study area developed at a time when automobile use was the dominant mode of transportation. Therefore, the predominant retail form reflects this condition and thus contains significant land needed for the movement and storage of vehicles.

Map 5: Distribution of Large Retail Properties in the Twin Cities Metro Area

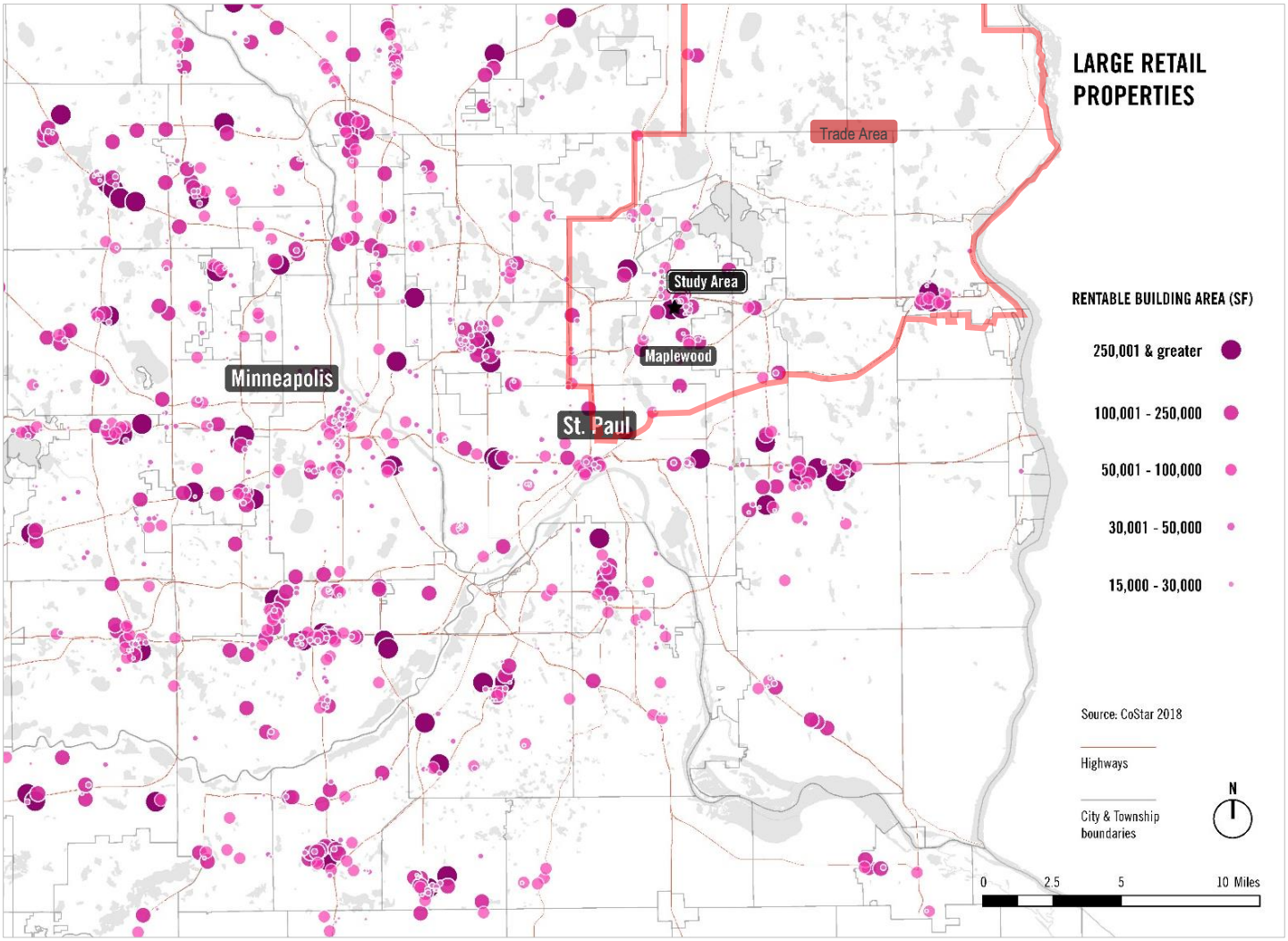


Table 8 and Map 6 present data on the Twin Cities' regional shopping districts. The table displays overall square feet of leasable retail space, vacant square feet, vacancy trends, rent trends, recent construction, average property size, and net absorption of space since 2014. The map shows a 3-mile radius around each district, if it is anchored by an enclosed shopping center or not, the relative size of the household base within a 3-mile radius, and the breakdown of households according to income. The following are key findings from the table and map.

- 14 retail districts were analyzed; half of the districts are anchored by an enclosed shopping mall, the other half are not. The Shingle Creek district in Brooklyn Center was anchored by an enclosed shopping mall called Brookdale until 2010, when it was closed, redeveloped into freestanding anchors, and rebranded as Shingle Creek Crossing.
- The Maplewood Mall district is the most northeasterly located regional shopping district in the metro area. It ranks 9 out of 14 in leasable square feet (2.3 million); 8 out of 14 for total households (27,800); and 12 out of 14 for households with incomes above $100,000 (8,200).

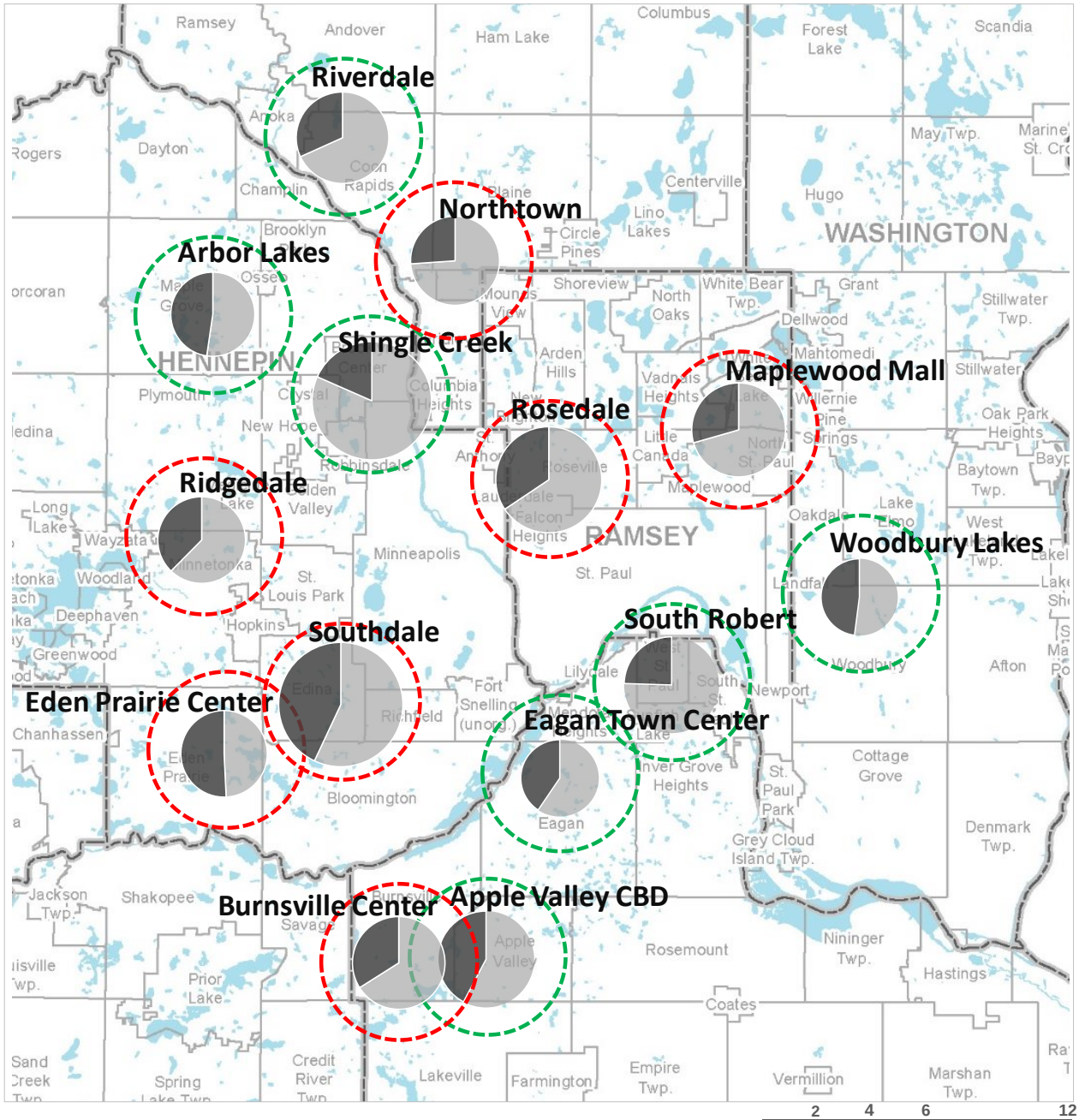
- The overall vacancy rate for all 14 districts is 3.1%. This is very close to the metro-wide retail vacancy rate of 3.0%. The Maplewood Mall district has a current vacancy rate of 4.4%, slightly above the metro-wide rate. However, since 2014, the Maplewood Mall district has seen its vacancy rate drop over 50% from a peak of 9.7%. This indicates that the district has been able to respond to improving economic conditions by successfully absorbing excess space.
- The Maplewood Mall district has absorbed nearly 100,000 square feet of lease space since 2014, which is about five percent of its overall leasable space. This is indicator that the district has been able to absorb space despite store closures and other common vacancy issues.
- Average quoted rents among the 14 districts is $17.92 per square foot. This is roughly $2.75 more per square foot than the metro-wide average asking rent, which is not surprising since regional shopping districts tend to attract a lot of national retailers and have the highest traffic counts associated with them. The Maplewood Mall district, however, has the lowest asking rent of the 14 districts analyzed at $13.50 per square foot. Although rent data can often be skewed by a small number of listings, the Maplewood Mall district has consistently had an average quoted asking rent near the bottom of the districts analyzed going back to 2010. This indicates that the overall sales volume achievable in the Maplewood Mall districts is below other competitive regional shopping districts.

Table 8: Retail Market Statistics by Competitive Regional Shopping District

				Vacancy Rate			Average Rent per SF						
Retail District	**Prop-erties**	**Leasable Sq Ft**	**Vacant Sq Ft**	**2010 Q2**	**2014 Q2**	**2018 Q2**	**2010 Q2**	**2014 Q2**	**2018 Q2**	**Const (SF) '10-'18**	**Under Const (SF)**	**Avg Prop Sq Ft**	**5-Year Net Absoprtion** ('14-'18)
Maplewood Mall	74	2,291,459	101,154	5.8%	9.7%	4.4%	$14.93	$13.81	$13.50	146,647	0	30,966	99,722
Rosedale	41	2,824,208	113,183	6.1%	2.5%	4.0%	$15.48	$19.82	--	5,000	141,000	68,883	167,479
Burnsville Center	78	3,576,308	190,290	6.4%	3.9%	5.3%	$14.38	$15.72	$15.17	192,737	0	45,850	(21,643)
Southdale	45	2,920,555	28,335	3.0%	1.9%	1.0%	$23.71	$18.83	$22.00	112,822	0	64,901	44,555
Eden Prairie Center	64	3,094,729	47,953	0.6%	0.9%	1.5%	$19.69	$18.97	$18.15	12,577	0	48,355	(15,308)
Ridgedale	41	2,480,326	11,179	4.3%	0.1%	0.5%	$19.95	$23.09	$17.75	10,200	0	60,496	(3,413)
Northtown	58	2,428,871	34,169	7.0%	10.6%	1.4%	$15.41	$14.67	$15.28	3,242	0	41,877	246,414
Arbor Lakes	102	2,958,497	121,384	6.3%	2.6%	4.1%	$22.53	$17.29	$23.24	73,026	0	29,005	(17,254)
Riverdale	83	2,247,569	13,773	0.7%	0.8%	0.6%	$20.42	$19.29	--	15,221	0	27,079	25,392
Shingle Creek	50	1,498,217	12,566	19.7%	20.9%	0.8%	$17.47	$8.83	$21.16	285,212	0	29,964	258,304
South Robert	121	2,118,776	228,839	2.6%	4.3%	10.8%	$16.47	$15.10	$15.17	101,773	9,100	17,511	(89,235)
Eagan Town Center	87	1,738,101	23,382	1.2%	1.5%	1.3%	$15.29	$22.63	$17.88	380,192	27,789	19,978	357,680
Apple Valley CBD	99	2,633,618	88,303	1.2%	0.9%	3.4%	$9.25	$15.67	$17.91	33,310	0	26,602	(66,991)
Woodbury Lakes	69	2,109,394	80,029	12.4%	4.1%	3.8%	$15.29	$22.63	$17.88	303,718	0	30,571	305,302
NE Metro	947	11,945,192	373,230	4.8%	3.9%	3.1%	$14.80	$12.38	$14.57	360,223	0	12,614	423,204
Metro Area	12,849	174,142,520	5,214,428	4.8%	4.0%	3.0%	$14.56	$14.33	$15.18	8,465,173	--	13,553	7,013,161

Sources: CoStar; Perkins+Will

Map 6: Demographic Statistics by Competitive Regional Shopping District



OFFICE MARKET

This section provides an overview of the regional and local market trends for office space. This section concludes with a demand analysis that forecasts how much future need there will be for office space and the likely impact it will have on the redevelopment potential in the study area.

Office Typologies

The office market is a broad category that encompasses many different types of properties that are typically differentiated by the building class (A, B, C); visibility, transportation access, structure, size of tenant spaces, and supporting services. Some of the office market subcategories are as follows:

HIGH RISE OR SIGNATURE BUILDING

Office buildings of this type place a premium on visibility and image. They are typically multi-tenant buildings with a high level of architectural interest. Level of finish is generally high. The tenant mix tends to be businesses that are willing to pay a premium for image including corporate headquarters, law firms, financial advisors, advertising and other types of business services. These buildings are typically found in the commercial center of a metropolitan area, at the intersection of high volume highways, and near affluent suburban locations.

LOW-RISE, MULTI-STORY BUILDING

Office buildings of this type have the most variety of physical conditions and tenant mix. Class A buildings in this class can have many similar features to the high rise buildings and command elevated rents. Class B and C space can be dated and needs to compete more on price. Typical locations for this class of office space are near regional malls and along arterial roadways in suburban locations. The tenant mix has a wide variety and can include smaller corporate headquarters, medical, technology, design, government and business services.

SINGLE-STORY BUILDING - RETAIL

Office buildings of this type share a lot of physical and location characteristics with neighborhood and strip retail. Buildings of this type often are located near retail areas where there is a reasonable amount of visibility and customer traffic. Tenant spaces are generally smaller in size and the businesses usually have some level of walk-in customer traffic that justifies the need for visibility. Typical tenants in this building type include insurance, real estate brokerage, medical services, and financial services.

SINGLE-STORY BUILDING - FLEX

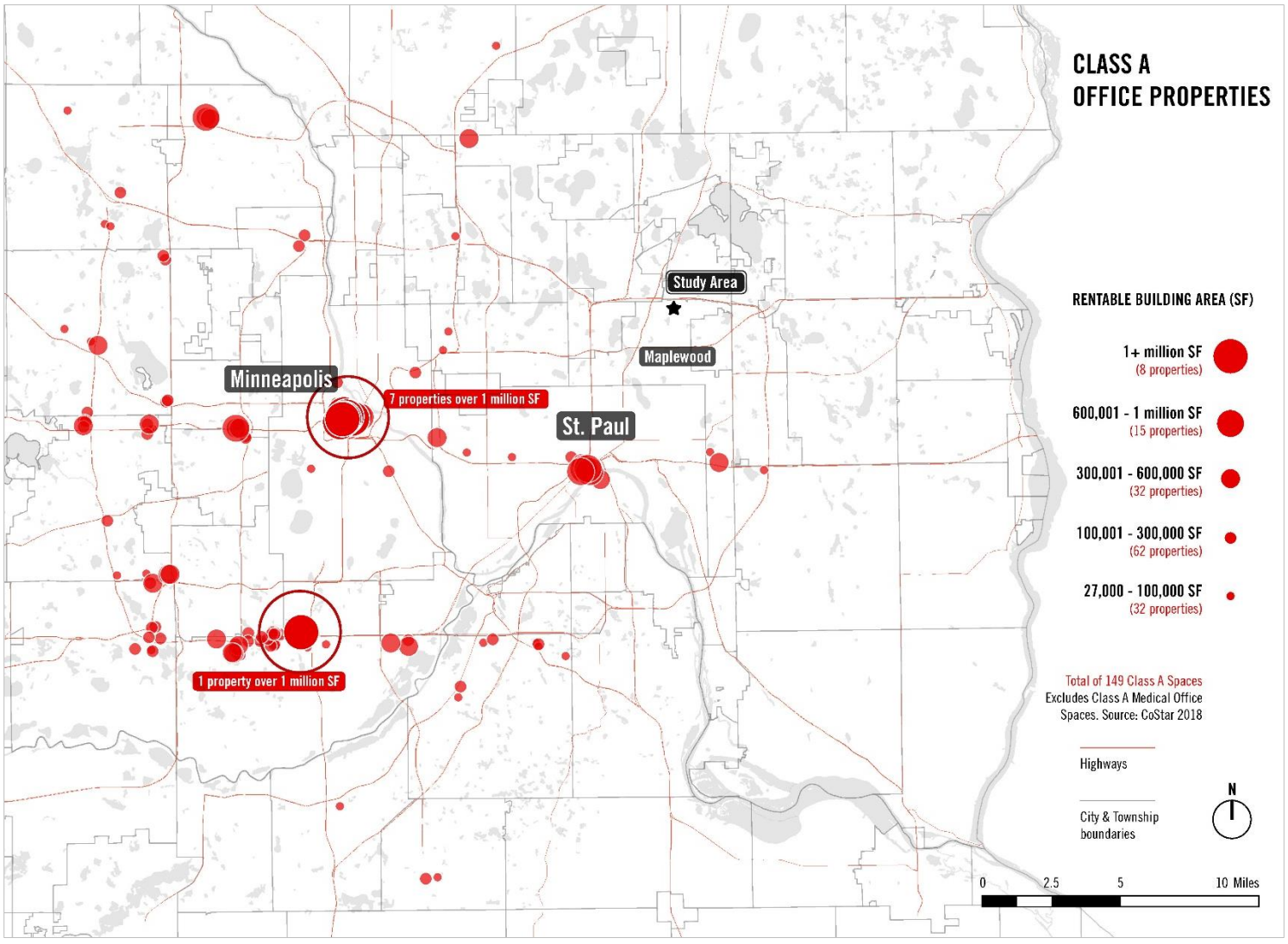
Office buildings of this type share many physical and location characteristics with light industrial buildings. They are often located in lower visibility areas where land prices are lower, enabling a reduced rent structure in comparison to other office types. Transportation access is important but does not always need to be direct as walk in traffic is often not a key issue for the tenants. Building shells involve industrial construction techniques and building heights. Tip up concrete panels or concrete block are common shell materials, but the level of finish often includes some retail finish including colored concrete, stucco, spandrel glass, tenant signage, and attempts to vary the appearance of flat rooflines or building faces. The level of aesthetic enhancement varies greatly in this sector based on each

community's standards and regulatory controls. Tenants in this building type tend to be office uses that require back office warehousing or light manufacturing; construction/repair related businesses that maintain some inventory, such as window or garage door installers; price sensitive large office users, such as call centers; and startup businesses that seek the lower cost and expansion flexibility of a flex building.

Distribution of Class A Office Properties

Although Class A office buildings represent a small proportion of the overall office market (i.e., a little over one-quarter of all office space is in Class A buildings), they have an important effect on the office market because their signature status helps brand submarkets as the kind of office districts that will attract regional and international headquarters as well as other high profile employers. Map 7 displays the location of Class A non-medical office properties in the metro area.

Map 7: Class A Office Properties in the Twin Cities Metro Area



There are four dominant office districts that account for 86 percent of all Class A office space: Downtown Minneapolis; the I-494 corridor in Bloomington; Downtown St. Paul; and the I-394 corridor.

The map illustrates not only where Class A office properties tend to cluster but also where they are absent. The entire northeastern portion of the metro area, including all of the trade area, does not have any Class A office properties.

Employment Trends

Demand for multi-tenant office space is generally driven by employment growth in the "knowledge"-based industry sectors of Information, Finance, and Professional Services/Management. Table 9 and Figures 24 and 25 present data on the employment trends by industry sector for trade area as well as the metro area and the United States. The following are key findings from the data:

- As of 2015 (the most recent year data is available), there were approximately 80,000 jobs in the trade area. This was an 11 percent increase since 2010 and a 15 percent increase since 2002. The rate of job growth in trade area has consistently outpaced that of the metro area and the United States over this time period.
- The most important industry sector in the trade area is Eds/Meds (Education and Healthcare Services). This sector accounts for almost 3 out of every 10 jobs in the trade area. The next most important industry sector is PDR, which are made up of businesses focused on production (i.e., manufacturing and construction), distribution, and repair, which account for roughly 1 out of every 5 jobs.
- Job growth in Eds/Meds sector has accounted for over 85 percent of all new jobs since 2002 in the trade area. This is consistent with the metro area and national experience.
- Jobs in the Knowledge industry sectors (i.e., information, finance, professional services, and management) typically contain the most office-based jobs. However, these sectors are not well represented in the trade area. They only account for 17 percent of all jobs, whereas in the metro area these sectors account for 29 percent of all jobs.
- The ratio of local jobs to households is an indicator of how strong the local employment base is relative to the region. Communities with a high number of jobs per household suggest that it is an important employment center. In the trade area, there are 0.96 jobs for every household. In the metro area, the ratio is 1.48 jobs for every household. This suggests that the trade area functions more as a place to live than a place to work.
- Focusing on Knowledge sector jobs, which drive demand for office space, the difference in the jobs-household ratio is even more dramatic. In the trade area, there are 0.16 Knowledge sector jobs for every household. In the metro area, the ratio is 0.42 jobs for every household, three times the proportion.

Table 9: Employment Trends by Industry Sector 2002-2015

TRADE AREA	Employment Counts				Distribution				Numeric Change			Percentage Change		
Industry	**2002**	**2005**	**2010**	**2015**	**2002**	**2005**	**2010**	**2015**	**'02-'05**	**'05-'10**	**'10-'15**	**'02-'05**	**'05-'10**	**'10-'15**
PDR**	19,503	18,910	14,798	16,976	28.0%	26.1%	20.5%	21.2%	-593	-4,112	2,178	-3.0%	-21.7%	14.7%
Retail	14,082	12,541	11,661	12,327	20.2%	17.3%	16.2%	15.4%	-1,541	-880	666	-10.9%	-7.0%	5.7%
Knowledge*	11,197	13,276	11,460	13,304	16.1%	18.3%	15.9%	16.6%	2,079	-1,816	1,844	18.6%	-13.7%	16.1%
Eds/Meds	14,482	16,521	21,516	23,627	20.8%	22.8%	29.9%	29.5%	2,039	4,995	2,111	14.1%	30.2%	9.8%
Hospitality	5,622	6,332	7,437	8,174	8.1%	8.8%	10.3%	10.2%	710	1,105	737	12.6%	17.5%	9.9%
Gov't	2,166	2,160	2,182	2,288	3.1%	3.0%	3.0%	2.9%	-6	22	106	-0.3%	1.0%	4.9%
Other	2,536	2,609	2,975	3,359	3.6%	3.6%	4.1%	4.2%	73	366	384	2.9%	14.0%	12.9%
Total	69,588	72,349	72,029	80,055	100.0%	100.0%	100.0%	100.0%	2,761	-320	8,026	4.0%	-0.4%	11.1%

7-COUNTY METRO AREA	Employment Counts				Distribution				Numeric Change			Percentage Change		
Industry	**2002**	**2005**	**2010**	**2015**	**2002**	**2005**	**2010**	**2015**	**'02-'05**	**'05-'10**	**'10-'15**	**'02-'05**	**'05-'10**	**'10-'15**
PDR**	422,401	406,099	340,664	380,730	27.2%	26.1%	21.8%	22.3%	-16,302	-65,435	40,066	-3.9%	-16.1%	11.8%
Retail	156,160	159,182	152,341	153,042	10.1%	10.2%	9.7%	9.0%	3,022	-6,841	701	1.9%	-4.3%	0.5%
Knowledge*	443,672	424,407	452,750	486,607	28.6%	27.3%	28.9%	28.5%	-19,265	28,343	33,857	-4.3%	6.7%	7.5%
Eds/Meds	289,195	309,211	361,661	404,171	18.7%	19.9%	23.1%	23.7%	20,016	52,450	42,510	6.9%	17.0%	11.8%
Hospitality	134,465	146,214	142,798	156,623	8.7%	9.4%	9.1%	9.2%	11,749	-3,416	13,825	8.7%	-2.3%	9.7%
Gov't	51,235	56,513	61,276	68,128	3.3%	3.6%	3.9%	4.0%	5,278	4,763	6,852	10.3%	8.4%	11.2%
Other	53,184	52,742	54,710	58,087	3.4%	3.4%	3.5%	3.4%	-442	1,968	3,377	-0.8%	3.7%	6.2%
Total	1,550,312	1,554,368	1,566,200	1,707,388	100.0%	100.0%	100.0%	100.0%	4,056	11,832	141,188	0.3%	0.8%	9.0%

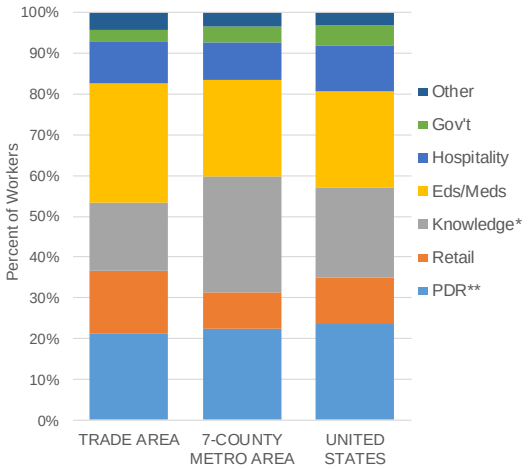
UNITED STATES	Employment Counts				Distribution				Numeric Change			Percentage Change		
Industry	**2002**	**2005**	**2010**	**2015**	**2002**	**2005**	**2010**	**2015**	**'02-'05**	**'05-'10**	**'10-'15**	**'02-'05**	**'05-'10**	**'10-'15**
PDR**	35,437,564	35,194,199	30,226,593	32,787,642	27.7%	26.8%	23.7%	23.8%	-243,365	-4,967,606	2,561,048	-0.7%	-14.1%	8.5%
Retail	15,083,331	15,321,421	14,547,773	15,459,457	11.8%	11.7%	11.4%	11.2%	238,090	-773,647	911,683	1.6%	-5.0%	6.3%
Knowledge*	27,430,031	28,385,876	27,236,236	30,212,264	21.4%	21.6%	21.3%	21.9%	955,845	-1,149,641	2,976,028	3.5%	-4.1%	10.9%
Eds/Meds	26,243,392	27,691,167	30,235,490	32,782,750	20.5%	21.1%	23.7%	23.7%	1,447,775	2,544,323	2,547,261	5.5%	9.2%	8.4%
Hospitality	12,395,422	13,187,637	13,479,279	15,297,094	9.7%	10.0%	10.6%	11.1%	792,215	291,642	1,817,815	6.4%	2.2%	13.5%
Gov't	7,137,199	7,149,265	7,543,200	7,202,374	5.6%	5.4%	5.9%	5.2%	12,066	393,935	-340,826	0.2%	5.5%	-4.5%
Other	4,300,197	4,379,841	4,404,848	4,305,658	3.4%	3.3%	3.5%	3.1%	79,644	25,007	-99,190	1.9%	0.6%	-2.3%
Total	128,027,136	131,309,404	127,673,418	138,047,236	100.0%	100.0%	100.0%	100.0%	3,282,268	-3,635,986	10,373,818	2.6%	-2.8%	8.1%

** PDR = Production, Distribution, and Repair industry sectors (i.e., Manufacturing, Construction, Transportaton, Utilities, etc.)

* Know ledge = Consists of "know ledge-based" industry sectors, such as Information, Finance, and Professional Services/Management

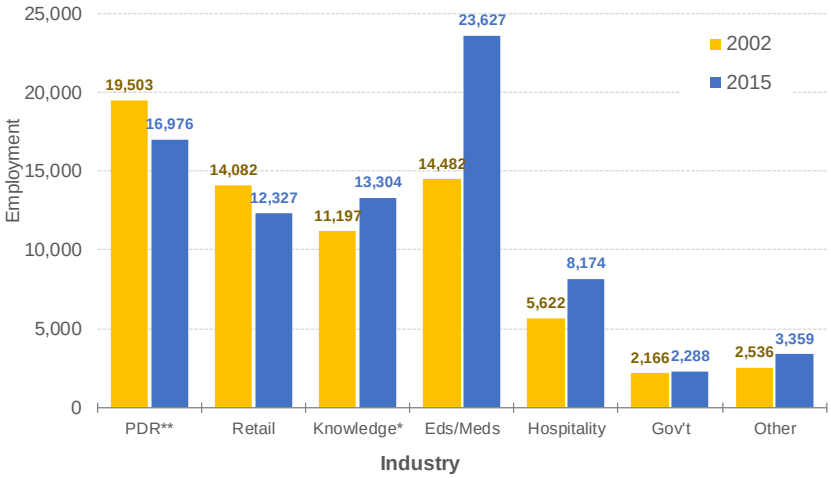
Sources: US Census, Longitudinal Employer-Household Dynamic (LEHD) dataset; Minnesota Department of Employment and Economic Development, Quarterly Census of Employment and Wages (QCEW); Perkins+Will

Figure 25: 2015 Employment Profile by Industry Sector



* Know ledge = Consists of "know ledge-based" industry sectors, such as Information, Finance, and Professional Services/Managment
** PDR = Production, Distribution, and Repair industry sectors (i.e., Manufacturing, Construction, Transportation, Utilities, etc.)
Sources: Minnesota Department of Employment and Economic Development, QCEW dataset; Perkins+Will

Figure 26: Trade Area Employment by Industry Sector 2002 and 2015



* Know ledge = Consists of "know ledge-based" industry sectors, such as Information, Finance, and Professional Services/Managment
** PDR = Production, Distribution, and Repair industry sectors (i.e., Manufacturing, Construction, Transportation, Utilities, etc.)
Sources: Minnesota Department of Employment and Economic Development, QCEW dataset;Perkins+Will

OFFICE EMPLOYMENT PROJECTIONS

According to the Minnesota Department of Employment and Economic Development (DEED), the Twin Cities Metro Area is projected to have a net increase of roughly 25,500 (3.2%) office jobs between 2014 and 2024 (Table 10). Clearly, 25,000 new office workers by 2024 will increase demand for office space throughout the metro area. However, several trends will temper this demand in the trade area.

First, office-based employment is currently underrepresented in the trade area. Therefore, unless a concerted effort is made to incentivize a major office employer to the trade area, it is unlikely that organic growth in the region will be attracted to the trade area in greater numbers than the historic pattern

Second, the average space per office worker has been declining in recent years due to greater acceptance of telecommuting, fiscal response to the great recession, less need for document storage, and greater interest in more collaborative work settings and shared workspaces. Historically, 250 square feet per office worker was the standard used by many architects when designing office space. This average has decreased to 150 square feet of space per worker and may decrease even more if current trends persist.

Table 10: Projected Growth in Metro Area Employment by Occupation 2014-2024

Occupation Category	2014	2024	# Change	% Change
Business and Financial Operations	131,219	138,652	7,433	5.7%
Computer and Mathematical	76,749	83,663	6,914	9.0%
Management	128,324	134,030	5,706	4.4%
Education, Training, and Library	92,089	95,438	3,349	3.6%
Community and Social Service	33,736	36,966	3,230	9.6%
Legal	16,211	17,173	962	5.9%
Life, Physical, and Social Science	17,035	17,838	803	4.7%
Architecture and Engineering	37,780	38,088	308	0.8%
Office and Administrative Support	271,644	268,364	-3,280	-1.2%
Office Occupations	**804,787**	**830,212**	**25,425**	**3.2%**
Personal Care and Service	97,232	111,052	13,820	14.2%
Healthcare Practitioners and Technical	90,427	102,741	12,314	13.6%
Healthcare Support	48,132	57,233	9,101	18.9%
Medical/Healthcare Service Occupations	**235,791**	**271,026**	**35,235**	**14.9%**
Food Preparation and Serving Related	134,928	143,260	8,332	6.2%
Sales and Related	179,497	184,863	5,366	3.0%
Construction and Extraction	58,530	62,833	4,303	7.4%
Building and Grounds Cleaning and Maintenance	57,011	59,147	2,136	3.7%
Installation, Maintenance, and Repair	55,441	56,777	1,336	2.4%
Transportation and Material Moving	98,196	99,145	949	1.0%
Protective Service	29,287	30,014	727	2.5%
Arts, Design, Entertainment, Sports, and Media	36,267	36,750	483	1.3%
Farming, Fishing, and Forestry	2,686	2,294	-392	-14.6%
Production	116,888	112,919	-3,969	-3.4%
Non-Office and Non-Medical	**768,731**	**788,002**	**19,271**	**2.5%**
Total, All Occupations	**1,809,309**	**1,889,240**	**79,931**	**4.4%**

Source: Minnesota Department of Employment and Economic Development

Third, with declining space needs, the current supply of office buildings will likely be able to accommodate a larger work force as spaces are reconfigured to meet current trends. Finally, not all office workers will work in a traditional office building. There are many examples of businesses that choose to locate typical office jobs in flex industrial space or even marginal retail space.

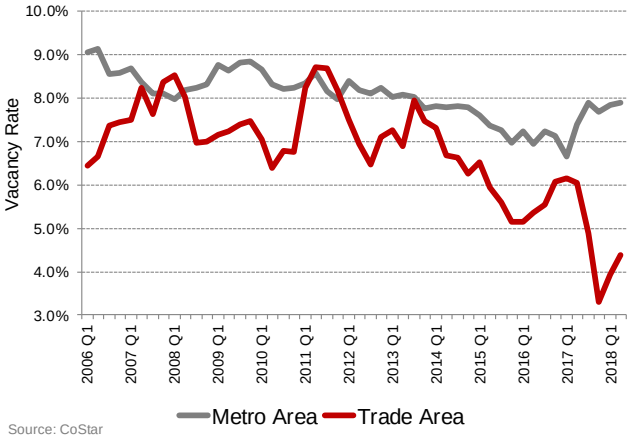
Table 10 also presents data on the occupational projections for healthcare and related fields. DEED expects these occupations will grow by more than 35,000 (15%) between 2014 and 2024. This is a continuation of trend that have been occurring for several decades. Unlike traditional office occupations, the trade area and, in particular the study area, have a strong concentration of these types of jobs. Therefore, unless the recent merger of Fairview and HealthEast results in scaling back their operations, it is likely that overall growth in the industry will drive new employment growth in the trade area.

Vacancy and Rent Trends

Office vacancy and lease rates were analyzed for the trade area and compared against the rates for all office properties throughout the metro area (Figures 26 and 27). The following are key findings from the figures:

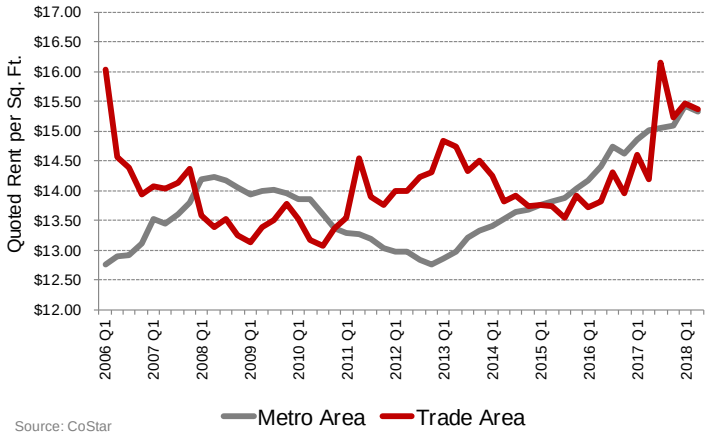
- The vacancy rate in the trade area is currently is just over four percent. This is a significant decrease since 2011 when the office vacancy rate peaked at nearly nine percent. Since 2006 the trade area vacancy rate has been consistently well below that of the metro area and is currently about half the metro area's vacancy rate (8%).
- The broader office market trend has been somewhat more mixed. The recession led to a sharp increase in unemployment, which directly impacted the need for office space as many companies downsized during this time. Coming out of the recession, though, as the economy improved and companies began to hire more workers, technology and cultural forces are reducing the amount of square feet needed per worker. The result is that many companies may actually have larger workforces than before the recession yet they do not require as much office space. This helps explain why office vacancies have not declined as much as one would expect in a period of employment expansion.
- Quoted lease rates for office space in the trade area are currently just below $15.50 per square foot. This is in line with the metro area average quoted lease rate ($15.33 per square foot). Quoted lease rates in the trade area have generally been increasing since 2015, which is consistent with traditional patterns in which declining vacancy will yield a lack of supply which will place upward pressure on rents.

Figure 27: Office Vacancy Trends 2006-2018



Source: CoStar

Figure 28: Average Quoted Rent for Office Space 2006-2018



Source: CoStar

MEDICAL OFFICE

Due to the presence of St. John's Hospital in the study area, it is important to analyze more closely a growing class of office properties that primarily serve the medical market. Within the trade area, over 23 percent of all office space is classified as medical office space. Across the metro area, the proportion is less than six percent.

The medical office market shares many of the same traits as the general office market regarding building types and preferred locations. In addition, medical offices have traditionally tended to cluster together, often near major hospitals or clinics. This cooperative location behavior increases efficiencies with sharing capital intensive equipment (MRI's) and lab resources. It also increases efficiencies in service between clinics and hospitals or specialty clinics.

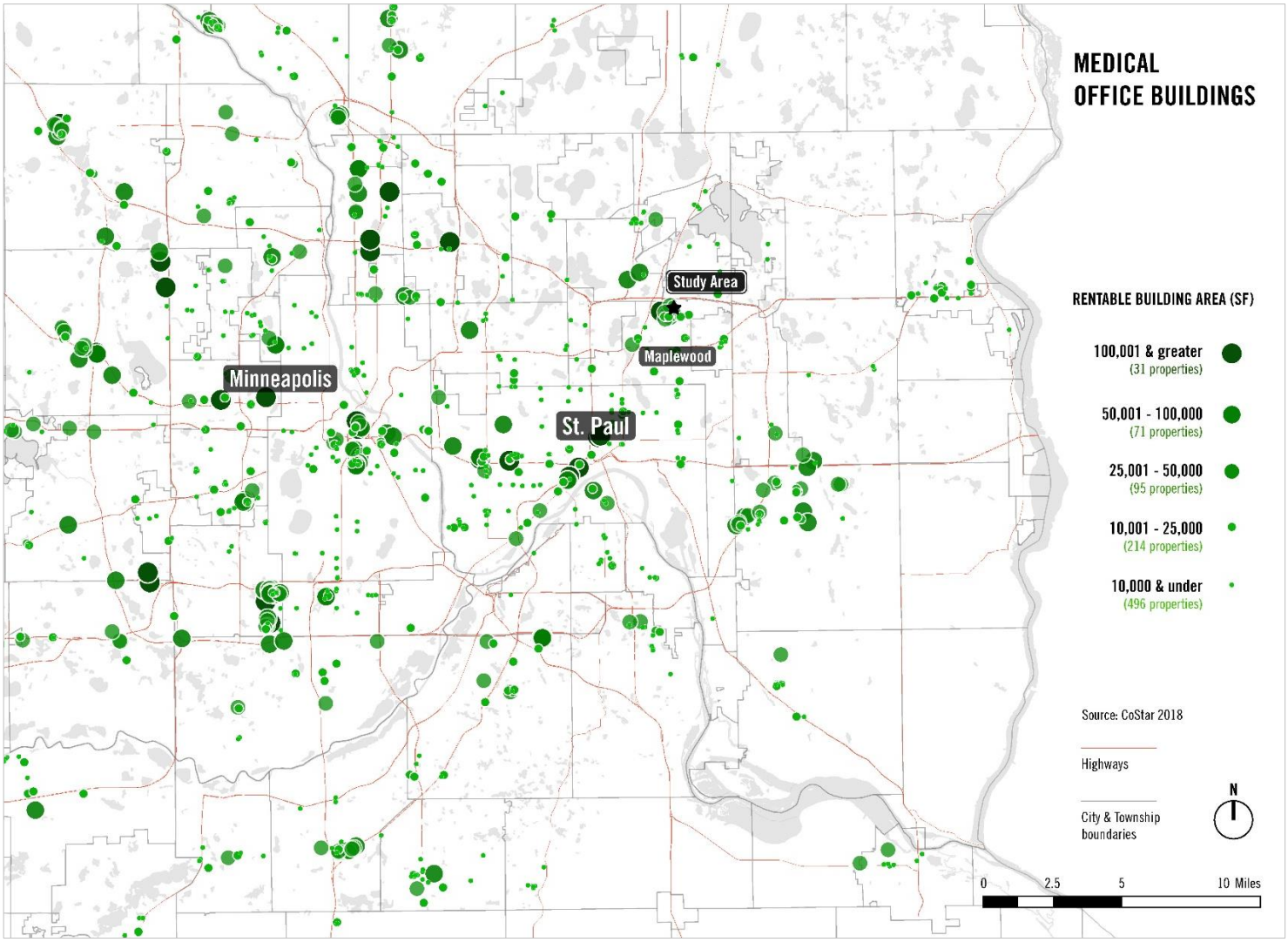
In recent years, as medical costs have soared and the industry has begun to reexamine its service delivery methods, innovations have begun to emerge that can run counter to the clustering behavior. One example is the urgent care clinic that can be located in non-traditional locations and also the introduction of small, nurse practitioner clinics in retail settings such as drug stores or big box stores like Target and Wal-Mart. Additional medical services are also being provided in nursing homes and assisted living facilities that previously would have only been available in a hospital or a clinical setting. Finally, a number of specialty clinics such as cancer or cardio clinics have begun to emerge although the specialty clinics are often still located near established medical service cluster areas.

The industry's innovations and development behavior is greatly influenced by governmental actions due to the impact of Medicare on the entire medical system. Changes in funding levels or reimbursement formulas can result in services being provided in different manners and at different levels. With the aging baby boom generation entering peak medical service age brackets, this appears to be a temporary condition and there is still a lot of interest being paid to this market sector in spite of the economic downturn.

Market Trends

According to CoStar the northeast metro contains 73 medical office buildings with a combined total of just over 1,000,000 square feet of space. This is approximately 12 square feet per household in the trade area. In comparison, metro-wide the rate is roughly 9.6 square feet per household. Given the recent construction of the HealthEast medical building, this will likely meet most of the pent-up demand for medical office space in the trade area. The outlier would be whether the recent HealthEast-Fairview merger would result in investment in specialties that would draw medical consumers from outside the trade area.

Map 8: Map of Medical Office Buildings in the Twin Cities Metro Area



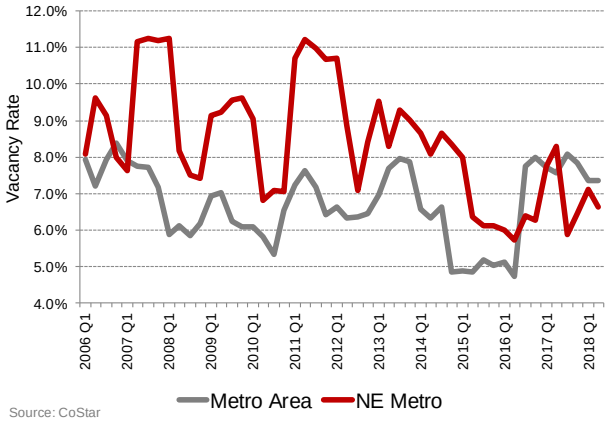
MEDICAL OFFICE VACANCY AND RENT TRENDS

The vacancy rate for medical office space in the northeast metro has oscillated between six and 11 percent between 2006 and 2018 (Figure 28). The current vacancy rate is just under seven percent and has now been below the metro area vacancy rate for close to two years. The trend of frequent peaks and valleys in the vacancy rate has been the case in both the northeast metro and across the metro area. These peaks and valleys are indicative of a market in which declining vacancy often results in rapid development, which then takes several quarters to be absorbed.

The average quoted lease rate for medical office space in the northeast metro is just under $21 per square foot (Figure 29). This is significantly higher than the average quoted rate across the metro area ($15 per square foot). Since 2006, the quoted lease rate in the northeast metro has been about $2-4 more per square foot than the metro area. Some of this difference can be attributed to the fact that a large proportion of the medical office space in the northeast metro is clustered near St. John's Hospital,

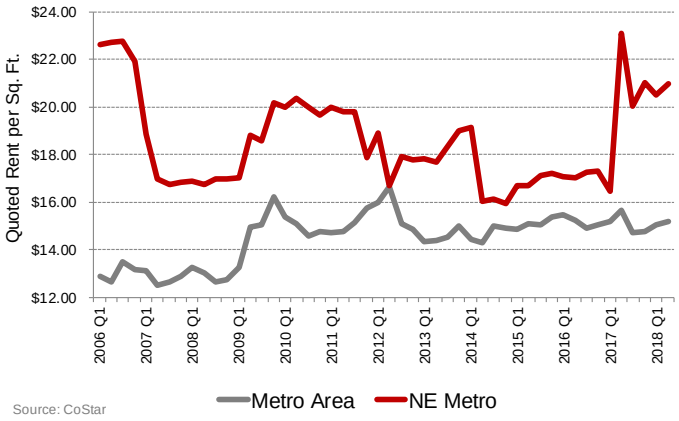
which would likely command higher lease rates because of the proximity to St. John's Hospital but also because of the presence of more specialized services as well.

Figure 29: Medical Office Vacancy Trends 2006-2018



Source: CoStar

Figure 30: Average Quoted Rent for Medical Office Space 2006-2018



Source: CoStar

PLANNED AND PROPOSED DEVELOPMENTS

Staff at each of the cities adjacent to Maplewood were contacted regarding any planned or proposed developments that might impact the market potential for new development in the study area. In addition, local publications and data sources were also researched for any news about upcoming development projects. The following is a review of planned and proposed future development by city.

Little Canada

There are no planned or proposed developments in Little Canada that could substantively impact development opportunities in the study area.

Mahtomedi

Mahtomedi Flats is a 36-unit market rate apartment building that will be open for occupancy in June 2018. It is located next to an Aldi grocery store near the intersection of East County Line Road (Highway 120) and Wildwood Road, which is about three miles from the study area.

Although Mahtomedi Flats is not of a sufficient size to impact the market dynamics of the study area, it will be an important test of how much trade area households are willing to spend on new market rate rental apartments. Rents will start at $1,450 for the smallest one-bedroom unit and top out at $2,800 for the largest two-bedroom unit. These rents translate to just over $2.00 per square foot, which will place property near the top of the trade area market. According to the property's website, 14 percent of the units (5) have been pre-leased.

North St. Paul

The City of North St. Paul has been working for many years with the owner of a 20-acre site located in the southeast quadrant of Highway 36 and McKnight Road that was formerly an Anchor Block manufacturing facility. Inland Development has an option on the site and, according to city staff, is looking for a housing developer. The southern half of the site is envisioned as having roughly 100 townhomes or a larger apartment building, while the north half of the site, which would have visibility from Highway 36, is envisioned as a commercial use.

The Anchor Block site is less than two miles from the study area. Due to its overall size, access to Highway 36, and access to the Gateway State Trail, which runs through the site, any development could be of a scale and quality to directly compete with new development in the study area. Despite its competitive characteristics, though, redevelopment of the Anchor Block site has always been challenged by its proximity to heavy industry immediately to its east. This will especially have an impact on the north half of the site. Furthermore, despite its proximity to the Gateway State Trail, the site does not lend itself to being connected to surrounding neighborhoods and the nearby downtown business district.

DigniCare is planning to start construction on a 32-unit assisted living facility in spring 2019. It will be located near the intersection of Highway 36 and Highway 120 on the site of the former school district bus garage.

The city also owns several parcels in downtown North St. Paul that have long been planned for redevelopment. However, due to the smaller size of the sites, additional properties would need to be acquired to make a feasible development. Currently, the city has no plans to acquire additional sites.

St. Paul

The Hillcrest Golf Club in northeastern St. Paul is currently for-sale. Located a little over three miles from the study area, the 110-acre property is likely to be redeveloped once it is sold. According to the local media, neighborhood interests have stated that they would like to see a mixture of residential and retail uses on the site. However, the city has yet to create a small area plan for the former golf course. This site has the size and lack of encumbrances (i.e., it is essentially vacant land) to compete directly with new development in the study area, especially residential uses.

Despite its positive attributes, however, the Hillcrest Golf Club site lacks two key qualities that would make it directly competitive with the study area. First, it is totally surrounded by single-family residential. Therefore, it would be politically challenging to expect significant portions of the site to be developed as multifamily housing. Second, there is no existing retail or commercial uses on or near the site. Therefore, any retail amenity would have to be developed. This will take time and it will need to be a very small scale as the traffic volumes and patterns serving the site would not support a critical mass of retail.

Vadnais Heights

The developer of Conifer Ridge, Peter Stalland, has proposed a similar market rate apartment property located at County Road F and Centerville Road, which is about four miles from the study area. The proposal is for 156 units in a five-story building. No approvals have been granted for the project.

Two medical office buildings are currently under construction: 1) a 9,000 square foot building located next to Walmart; and 2) a 20,000 square foot building anchored by HealthEast located near Highway 96 and Oak Grove Parkway. The first building is small enough to not have a significant impact on the study area. The second building is being developed by the Davis Group the same group that developed the recently completed HealthEast medical building in the study area. The second building is nearly six miles from the study area and clearly serves a different trade area than the medical office buildings in the study. It will have very little impact on the study area.

White Bear Lake

Troy Mathwig, who developed Mahtomedi Flats, has proposed a series of four apartment buildings on the four corners that comprise the intersection of Bellaire Avenue and County Road E. The location is approximately two miles from the study area. Current or recent uses on each corner have been gas stations. Each building would be three-stories, and the combined total number of units was to be 99. Organized opposition to the project from neighbors has tabled the project indefinitely.

The City of White Bear Lake has targeted the Wildwood Shopping Center for possible redevelopment due to longstanding occupancy issues and two outlot buildings in poor condition. Located in the northeast quadrant of Wildwood Road and Highway 120, the site is roughly three miles from the study area. Very preliminary discussions have considered residential uses above retail or a similar commercial use. Walgreens owns a store adjacent to the shopping center in question and would have a key role in any redevelopment. Currently, this is not a high priority for the city.

The City has also been received a preliminary proposal for a multifamily development on a 10-acre site near County Road E and Highway 61. Based on early discussions with the developer, the project size would range anywhere from 140 to 200 units. This proposal is considered very tentative by the city.

EXPERT INTERVIEWS

Previous sections of this report presented quantitative data on the local and regional market for residential, retail, and office uses. In order to augment this data with more qualitative data, several developers familiar with the study area and stakeholders located in the study area were interviewed to gather their opinions and perspectives on the opportunities and barriers to future change in the study area.

The following are key findings from the interviews:

- When asked about the overall opinion of the study area's market potential, several interviewees noted that the local market is older and less affluent, which limits certain opportunities, but that there are definitely still opportunities to be had.
- Several interviewees were concerned about the future of Maplewood Mall noting that it is an important asset to the area because it generates so much activity and is a symbol of the community. One interviewee even stated that they would need to know more definite plans about the future of the mall before moving forward on an opportunity in or near the study area. Another interviewee stressed how important it was to gauge the competition for Maplewood Mall and then commented whether or not there might be too much supply in the market. This same interviewee added that Rosedale appears to be on an upward trajectory because they are expanding when most malls are contracting.
- It was observed that the retail mix between Maplewood Mall and adjacent retail properties was not optimal. For example, the area was lacking a full-service sporting goods store and family-based entertainment options.
- Interviewees with residential experience noted that the housing market is strong and that interest has definitely been rising for quality suburban locations (i.e., walkable, transit accessible, and proximate to recreational and retail amenities) as more and more central city sites are developed. One interviewee was particularly bullish on the value that walkable environments, mass transit availability, and bike trails bring to development. They even added that they are now passing on opportunities that don't have these characteristics.
- Some interviewees felt that the big driver in housing right now is what would be described as "amenity-rich" housing developments (i.e., underground parking, high-end finishes, extensive common area facilities, etc.). Given the concern that many local markets are not able to achieve the level of rents that support these developments, it was suggested that the City consider any number of tools that would assist the development community in these types of developments (e.g., TIF, tax abatement, lower land costs, etc.).
- All the interviewees felt that higher density development was not only what the market was demanding, but was necessary to make projects feasible. In the words of one interviewee, "density is here to stay." Although the view on density was clear, another interviewee made the observation that, "people don't want to own real estate. So, what will real estate look like in the future if no one wants to own it?" This was an interesting observation because it underscores the level of uncertainty among developers and stakeholders about how some of the technological changes we are experiencing will fundamentally alter the development process.
- Considering the concentration of medical office buildings in the study area, one interviewee commented that the market for medical office buildings looks promising given the long-term forecast of the healthcare industry. However, they added that the market in the study area is likely "tapped out" for now because the

HealthEast medical building consolidated operations from several other buildings in the area, which will now have vacancies.

- The recent merger of HealthEast and Fairview elicited some concern among the interviewees. One person commented that it could be good or bad for St. John's depending on whether leadership in the healthcare system sees St. John's as having any redundancies with other facilities within the new merged system. At the same time, they also noted the potential for expansion opportunities that weren't there pre-merger.

CONCLUSIONS

Earlier chapters have assessed important market trends at both a local and regional scale and applied them to the real and perceived conditions of the study area. This analysis provides important context for creating a development framework to help guide planners and stakeholders through a period of transformation.

This chapter builds upon previous analyses to create a more complete picture of which market trends will most profoundly affect the study area in the coming years. Ideally, a richer understanding of market trends will help identify where and what types of public intervention are needed most to catalyze investment, or, conversely, where new controls and policies may be needed to protect existing assets in the face of rapid change.

The chapter begins with high-level calculations that attempt to quantify market demand in order to provide a basic understanding of the potential magnitude of change in the foreseeable future. From there, key conclusions are drawn regarding the short and long-term development potential in the study area, which is then followed by strategies for how to best navigate such market forces.

Demand Calculations

The following demand calculations are meant to provide a sense of the potential volume of growth in the study area over a 20-year period. The calculations are not intended to measure the current market feasibility of a specific project at a specific location, which is beyond the scope of this study. Nevertheless, measuring market demand even at a broad scale helps frame which real estate sectors will likely outbid others and potentially result in land use changes, which can ultimately impact the need for improvements to the public realm, the transportation network, location and type of utilities, among others.

HOUSING DEMAND

Demand for new housing in a given locale comes from three primary sources: 1) overall household growth due to in-migration or formation of new households; 2) replacement of existing housing stock that has been destroyed, become obsolete, or converted to other uses; and 3) changes in housing preferences. Housing preferences can change for a variety of reasons, but the most common are a change in the type or size of a household, change in household income (positive or negative), change in lifestyle (e.g., increased travel, owning a second home, emergence of a disability), or simply a desire for change in and of itself (i.e., style or fashion).

Measuring housing demand at such levels is essential when evaluating a specific project at a specific site at a specific point in time. This study is concerned with broader questions regarding housing demand over a larger area (i.e., North End study area) and longer period of time (i.e., 20+ years). Therefore, detailed forecasts are not only unnecessary but would become quickly irrelevant and meaningless. Nevertheless, it is still important to quantify future housing demand, even at a broad scale, to better understand how trends in demand may compete with, and possibly outbid, other land uses throughout the study area.

Table 11 summarizes the methodology used to estimate the demand for new housing in the study area through 2040. The calculation includes estimates for market rate and affordable forms of rental housing as well as multifamily ownership housing (i.e., condominiums and townhomes).

Based on the calculation, the study area could capture up to 540 units of market rate rental housing, 1,400 units of affordable rental housing, and 270 condominium and/or townhome units through 2040. In order to meet this demand, the calculation assumes that significant land within the study area would be made available for redevelopment.

Table 11: Study Area Housing Demand Calculation 2018-2040

		2018-2023			2024-2030			2031-2040			2018-2040		
Forecasted Household Growth for Trade Area[1]		5,740			5,697			7,288			18,725		
Demand from Outside the Trade Area[2]	+	20%			20%			20%			20%		
Estimated Housing Replacement Need[3]	+	560			670			550			1,780		
Trade Area Housing Demand	=	7,735			7,791			9,660			25,186		
		Rent		Own	Rent		Own	Rent		Own	Rent		Own
Propensity of Households to Rent or Own[4]	x	35%		65%	35%		65%	35%		65%	35%		65%
Propensity for Multifamily Housing[5]	x	90%		25%	90%		25%	90%		25%	90%		25%
Trade Area Multifamily Housing Demand	=	2,437		1,257	2,454		1,266	3,043		1,570	7,934		4,093
		MR*	Aff*		MR*	Aff*		MR*	Aff*		MR*	Aff*	
Breakdown of Demand by Affordability[6]	x	33%	67%	56%	33%	67%	56%	33%	67%	56%	33%	67%	56%
Trade Area Demand by Affordability	=	804	1,632	704	810	1,644	709	1,004	2,039	879	2,618	5,316	2,292
Pending Trade Area Units[7]	-	192	0	0	0	0	0	0	0	0	192	0	0
Remaining Unmet Trade Area Demand	=	612	1,632	704	810	1,644	709	1,004	2,039	879	2,426	5,316	2,292
Capture Rate of North End Study Area[8]	x	20%	25%	10%	20%	25%	10%	25%	30%	15%	--	--	--
Potential Study Housing Demand	=	**122**	**408**	**70**	**162**	**411**	**71**	**251**	**612**	**132**	**535**	**1,431**	**273**

* MR = Market Rate; Aff = Affordable

[1] Perkins+Will

[2] Additional demand from households outside the Trade Area. This is estimated at 20% given the central location of the Trade Area within the region, proximity to major employment centers, and access to high-frequency transit.

[3] US Census uses the age of housing to estimate housing loss and replacement need due to demolition and severe damage. The older the housing stock of a given area of analysis, the higher the estimate rate of annual replacement.

[4] As of 2016, 27% of Trade Area households rent their housing. It is assumed that new household growth in the Trade Area will have a stronger propensity to rent because of demographic factors such as the aging of the Baby Boomers, rising home prices and mortgage interest rates, and greater acceptance of rental housing.

[5] As of 2016, about 83% of renters and 18% of homeowners in Trade Area live in some type of multifamily housing (U.S. Census). This is expected to shift upward because the majority of homes (51%) constructed in the Trade Area since 2000 have been multifamily units.

[6] Rental: Housing affordability is typically based on a combination of factors including household income, household size, and what is considered fair market rents. As a result, there are many different definitions for what consititutes "affordable" housing. For the purposes of this study, households with annual incomes under $48,000 are considered to have incomes too low to afford typical market rents observed at newer comparable rental properties, which typically start at $1,200 per month. Ownership: New construction pricing typically starts at $200,000. Given a standard 20% downpayment and prevailing interest rates, qualifying household incomes would start at about $75,000.

[7] Pending "market rate" properties include Mahtomedi Flats (36 units) and the proposed Peter Stelland project at County Road F and Centerville Road (156 units).

[8] The proximity of high-frequency transit and the greater incidence of renters to live without automobiles means the study area will be able to capture a greater proportion of renter demand than ownership demand. Ownership housing, depending on the market niche, is generally influenced more by access to scenic and recreational amenities than transportation or retail amenities, thus the lower capture rate. Furthermore, the prevailing house values in the immediate neighborhood will also serve to limit some demand from certain ownership markets that place a premium on their housing as an investment as much or more so than other criteria such as convenience to transit or other amenities. It is assumed that capture rates would increase over time as the study area adapts to market dynamics that add value to the location.

Source: Perkins+Will

RETAIL DEMAND

The retail industry is undergoing significant changes as it adapts to an increasingly digital economy. Understandably, retailers are struggling with how to assess their real estate needs in an environment in which consumers now have multiple channels with which to access goods and shifting transportation patterns are altering how people get from point A to point B. In light of all this uncertainty, it almost makes quantifying future retail space needs meaningless. Nevertheless, such an exercise can provide valuable insight into the magnitude of potential change vis-à-vis recent historic trends.

Table 12: Trade Area Retail Demand Calculations 2018-2040

		2018	2023	2030	2040
Trade Area Households[1]		86,496	92,236	97,933	105,161
(times) Average Household Income[2]	x	$87,000	$87,000	$87,000	$87,000
(equals) Aggregate Household Income	=	$7,525,152,000	$8,024,532,000	$8,520,171,000	$9,149,007,000
(times) Percent of Income Spent on Retail Goods and Services[3]	x	24.0%	23.0%	22.0%	22.0%
(equals) Resident Household Consumer Dollars	=	$1,806,036,480	$1,845,642,360	$1,874,437,620	$2,012,781,540
(plus) Retail Spending by Daytime Workers[4]	+	$9,750,000	$10,140,000	$10,725,000	$11,505,000
(equals) Retail Spending Potential	=	$1,815,786,480	$1,855,782,360	$1,885,162,620	$2,024,286,540
(times) Percent of Retail Spent at Stores[5]	x	90.5%	87.5%	85.7%	83.7%
(equals) Resident Household Consumer Dollars	=	$1,643,286,764	$1,623,809,565	$1,615,584,365	$1,694,327,834
(divided by) Average Sales per Sq Ft[6]	÷	$260	$250	$240	$250
(equals) Estimated Trade Area Demand for Retail Space (sq ft)	=	6,946,294	7,382,569	7,810,157	8,051,126
(less) Existing Supply of Viable Retail Space[7]	-	7,350,000	7,350,000	7,350,000	7,350,000
(equals) Net Demand for Trade Area Retail Space (sq ft)	=	**-404,000**	**33,000**	**460,000**	**701,000**

[1] Metropolitan Council; Perkins+Will

[2] Figures are in 2016 dollars.

[3] US Department of Labor, Bureau of Labor Statistics: Average Annual Expenditures and Characteristics, Consumer Expenditure Survey, 2016. Percentage for future years are adjusted downward by 1%-2% to account for an aging population that will spend less on retail goods and services compared to younger households.

[4] Assumes roughly 25,000 daily workers witihn two miles of the study area and an average weekly spending of $7.50 .

[5] As of the 1Q 2018, the US Census estimates that e-commerce (or on-line sales) now account for 9.5% of all retail sales. In 2009, e-commerce accounted for 4% of all retail sales. Therefore, the proportion of retail sales captured by e-commerce has increased roughly 0.6% each year. This growth rate is unsustainable and will moderate at some point in the future. However, as large, longstanding retail operations succumb to changes in the retail industry more and more consumer dollars will migrate to e-commerce until entirely new retail formats designed for the in-person experience are developed and implemented. Nevertheless, this analysis conservatively steps back the rate of e-commerce growth to through the planning period out to 2040.

[6] *Dollars and Cents of Shopping Centers* (Urban Land Institute). The average includes all retail types, which often have very different sales per square foot. The average presented here is in 2016 dollars. However, even in constant dollars, we believe the average sales per square foot will change in the future. In the near-term, the assumption is that vacated retail space due to closures will put downward pressures on rents, which will lower sales per square foot threshold among profitable retailers. however as the industry shifts to smaller, more intensive footprints this will result in higher sales per square foot profitability targets.

[7] According to CoStar, a national provider of commercial real estate, there is approximiately 9.8 million square feet of retail space in the trade area. However, this inventory is inclusive of all properties regardless of condition and location. It is estimated that approximately 25% of this space would not be considered viable and thus not competitive. For example, nearly 1.6 million sf in the trade area are currently used by automobile-based businesses (i.e., dealerships, service stations, and repair shops).

Source: Perkins+Will

Table 12 illustrates the methodology used to calculate retail demand in the trade area. Demand for retail space is driven mostly by the spending power of trade area households and workers in relation to

the supply of existing retail space. The trade area is defined based on the location of competitive regional shopping districts. Therefore, it is assumed that the "pull factor" of attracting households from outside the trade area is limited.

According to Table 12, there currently is an oversupply of retail space in the trade area. Although future household growth will increase the demand for retail goods and services in the trade area, changing retail dynamics suggest that the amount of retail square feet needed per household will decline over time. This means that it will take close to 10 years of household growth in order to balance the existing supply of space with consumer dollars in the trade area. It should be noted that this methodology does not consider how much of the existing retail supply is functionally obsolete. Due to the changes noted above, it is too difficult to determine what types of space will become functionally obsolete in the near future. Regardless, what is known is that retail properties that are highly accessible, highly visible, have lots of windows, and have spaces that can be easily divided or consolidated have withstood the test of time.

It is also important to note that the retail demand calculation, unlike the housing demand and office demand calculations, does not specify how much growth in demand can be captured in the study area. This is because a major user in the study area is the Maplewood Mall one of the metro area's largest regional shopping centers. Therefore, it is assumed that the study area is the preeminent retail location within the trade area. As a result, the purpose of the calculation is to help understand how the underlying changes in the trade area household base and workforce may impact the support for the existing retail in the study area.

OFFICE DEMAND

Unlike housing and retail, which are built forms that help meet basic human needs (i.e., shelter, food, and clothing), future demand for office space cannot be forecasted based on demographic data. Instead, employment growth is the key determinant of office space demand. However, volatile changes in the economy – be it local, national, or international -- can make predicting employment growth very challenging. Furthermore, structural change in the economy is currently affecting the work place in such a way that traditional office environments and the space needed for them are rapidly changing.

Table 13 displays the methodology used to calculate potential demand for office space in the study area between 2018 and 2040. Based on job growth forecasts prepared by the Metropolitan Council and the Minnesota Department of Employment and Economic Development, it is anticipated that the number of new office jobs in trade area will increase by just over 2,600 through 2040.

Office jobs are converted into office space based on the average amount of space needed per office worker. This amount had been historically about 250 square feet per worker. However, increased telecommuting, fiscal restraint on the part of employers, and changes in workplace design have pushed this figure down to 150 square feet per worker. At this amount, the trade area will likely require about 100,000 square feet of new office space every five years to accommodate the projected growth. Because the office vacancy rate in the trade area (4.4%) is below market equilibrium (6% vacancy), this means there is no need to absorb any excess office space before any appreciable demand is generated for new speculative office space.

Not all of the calculated demand, however, can be captured in one location since it takes into consideration all types of office jobs created by all types of businesses, many of which have different needs and demands for their office space. It has been estimated that due to the study area's strong set of amenities (retail and recreational) and access to the regional highway system that it would be in a position to capture up to 30 percent of this demand (about 30,000 square feet every five years) if land was made available for new development.

Table 13: Study Area Office Demand Calculation

		2018-2023	2024-2030	2030-2040
Forecasted Trade Area Job Growth[1]	=	5,200	4,400	6,300
Percentage of New Jobs that will be Office-Based[2]	x	16.6%	16.6%	16.6%
Forecasted New Office-Based Jobs	=	863	730	1,046
Average Square Feet per Worker[3]	x	150	150	150
Office Space Need Based on Future Office Employment Growth	=	129,500	109,600	156,900
Excess Office Space that Needs to be Absorbed[4]	-	0	0	0
Demand for New Downtown Office Space through 2030 (sq ft)	=	130,000	110,000	157,000
Proportion Capturable in the Study Area[5]	x	30%	30%	35%
Demand for New Office Space in the Study Area (sq ft)	**=**	**39,000**	**33,000**	**54,950**

[1] Metropolitan Council; Perkins+Will

[2] As of 2015, 16.6% of all trade area jobs were classified as "office" jobs based on the US Census's North American Industry Classification System (NAICS). Any new employment growth in the trade ara is assumed to be at this proportion of office vs. non-office jobs.

[3] Historically, office space per worker has averaged 250 square feet. However, many newer office buildings are being designed for 150 square feet per worker because of continuing advancements in telecommunications that facilitate working remotely, a growing preference for open floorplans, and opportunities for cost savings.

[4] According to CoStar, the trade area currently has close to 200,000 square feet of vacant space. This is a 4.4% vacancy rate. Assuming market equilibrium is around 6% vacancy, there is no need to absorb excess supply before the market can support new multi-tenant office space.

[5] Given the central location of the study area within the trade area and the potential for existing retail and recreational amenities of the study area to attract employers, it is estimated that the study area could capture as much as 30% of the trade area demand for new office space. It is assumed that capture rates would increase over time as the study area adapts to market dynamics that will add value to its location.

Source: Perkins+Will

Key Findings

Overall, the short and long-term market demand for new development in the study area has some positive signs but that the reality of a rapidly changing marketplace will require property owners and other stakeholders to stay ahead of fast moving trends and be in a position to seize opportunities quickly. If not, missed opportunities will compound on one another and potentially prevent any changes that would make a difference. This should come as no surprise to those who pay close attention to the retail industry. Nevertheless, a broad statement proclaiming the potential of an area like the north End of Maplewood masks the fact that opportunity is not evenly dispersed throughout the study area. Differences in market demand can be based on a variety of factors, such as location, type of land use, market timing, competition, to name but a few.

Previous chapters provided data and analysis on a variety of market trends that influence the development potential of the study area. These chapters included a review of the locational characteristics of the North End study area, socio-economic characteristics of the North End's trade area and the broader metropolitan region, analysis of various real estate markets relevant to the study area, and a summary of interviews with real estate experts familiar with the study area and northeast metro area. Based on the analysis included in these previous chapters, the following are key findings and conclusions regarding important market trends affecting the North End study area.

- **The North End study area is the key node of activity in the northeast metro.** With over two million square feet of retail space, over 1,000 units of housing, and almost 5,000 jobs, the study area is a vital economic generator. Moreover, recent and planned transportation investments, including the Bruce Vento Trail, a Metro Transit Center, and the Rush Line BRT, will only serve to increase connectivity to and from the study area, which will position it to continue to be a key node of activity well into the future.
- **Forecasted growth for the metro area and the North End's surrounding trade area will fuel demand for a variety of real estate uses, including new multifamily housing, new retail concepts that will likely emerge in an increasingly digital world, and more traditional and medical office space that will be needed to support a growing and aging population.** Based primarily on growth forecasts for the trade area, the North End study area could potentially support up to 2,200 new units of housing, over 120,000 square feet of new office space, and significant rehabilitation and reconfiguration of its retail existing structures.
- **The trade area population is older than the metro area.** As the number of older adults continues to grow this will affect the need for more housing with services, access to medical care, access to healthy activities, and reduced levels of spending on certain retail categories, such as entertainment, apparel, and fast casual dining.
- **Although older adults are increasing in the trade area, persons that are prime child bearing age (25 to 34) grew at a faster rate in Maplewood and the trade area compared to the metro area from 2010 to 2016.** This will boost the number of children in the coming years and increase demand for larger housing styles (3BR+) and spending in most retail categories.
- **Homeownership has been on the decline since 2000 in the trade area as well as across the region.** This is due to a variety of reasons, including changes in the mortgage industry brought on by the 2008-09 recession, recent demographic shifts favoring age groups with the propensity to rent, rising home prices making homeownership unobtainable for many households, and greater interest in living in neighborhoods with a high level of walkability, which requires denser forms of housing that are often rented and not owned.
- **Incomes in the trade area are, on average, slightly below those of the metro area.** More importantly, since 2000, the rate of increase in the trade area has lagged behind the metro area rate of increase. This will be seen as a barrier to investment among many private developers, especially those that are risk-averse. Of particular interest, is the income trends among younger households (those under age 45) and older households (those age 65 and older). Incomes among younger households are not keeping with other age groups. Meanwhile, older households are experiencing income increases well ahead of all other age groups. This dynamic has the potential to create a significant cultural gap between younger and older households, which could have political ramifications in which government investment skews more heavily toward the benefit of older households and away from younger households.
- **St. John's Hospital is a key employer in the study area.** Its growth has helped make healthcare services the largest industry sector in the trade area. Moreover, the likelihood of St. John's and the ancillary facilities

that have grown up around it to grow even more in the coming years is high. According to data from the Minnesota Department of Employment and Economic Development, occupations in healthcare services account for the top three fastest growing occupations in the Twin Cities metro area through 2024.

- **Housing will drive demand for new development in the study area in both the short-term and long-term.** The housing market is currently exceptionally strong and indicators suggest it will stay strong for at least a couple more years, barring an economic downturn. Rental housing in suburban markets will be especially strong because new apartment development has been lacking for many years and is now starting to pick up steam. However, like all real estate sectors, housing will eventually go through a down cycle. Nevertheless, the characteristics of the study area are such that housing will continue to be the main driver of change over time. This has to do mostly with the demand for housing at important activity nodes, but it also has to do with the decreasing need for space in the retail and office sectors.

- **Housing as a main driver of change can be seen in other suburban activity nodes across the metro area.** For example, in the Southdale area of Edina over 700 market rate apartments have been developed since 2014. Another 860 units are under construction or well through the planning process. In the Ridgedale area of Minnetonka, 460 housing units have been recently constructed or are under development.

- **The primary barriers to housing development in the study area will be availability of sites and the market's ability to support rents that will make projects financially feasible.** Conifer Ridge, the apartment property that just opened in the study area, was built on one of the last remaining undeveloped sites in the study area. Therefore, any future housing development will likely require the redevelopment or repurposing of an existing property, which will be dependent on property owners to sell their property to a developer or take on the development themselves. As for testing the market support for new housing, according to CoStar, Conifer Ridge is nearing stabilized occupancy after being open less than a year. This rate of absorption will be noticed by the development community, and, unless management was offering significant concessions in order to fill units quickly, the asking rents (at more than $1.70 per square foot) will also attract interest.

- **The greatest housing need is for workforce and low-income housing.** Because of rapidly rising housing costs, this is a growing need across the metro area and not just in the trade area. The challenge, of course, is that the target market cannot afford rents that would make a project financially feasible, unless there some type of public assistance that can help close the financial gap. Assistance can come a variety of forms. For example, financial assistance can come in the form of tax-increment financing (TIF), tax abatement, grants, or help with site acquisition and/or clean-up costs. Regulatory assistance can come in the form of streamlining the approval process or allowing density bonuses or other incentives for including below market units.

- **Housing for seniors will be needed as well given the aging of the population in the trade area.** There are several levels of senior housing currently in the study area. The newest is Maple Hill Senior Living, which is an assisted living and memory care facility that was previously a hotel. The greatest demand for senior housing in the near-term, however, will come not from persons with care needs but from Baby Boomers, who are now entering their mid-70s. This group is looking for housing that is lower maintenance but does not necessarily have supportive care associated with it. In some cases, an age-restriction would appeal to this group, but many times traditional rental properties with access to trails and modern features and amenities is the most desirable options. This target market will also desire owner-occupied, low maintenance housing. This can be townhomes or condominiums/cooperatives. Regardless of whether the housing is owned or rented, this group will be looking for single-level living.

- **The future of Maplewood Mall will be extremely important to the remainder of the study area and its ability to attract investment and support redevelopment.** The mall has been an icon for the

northeast metro for over 40 years. It defines the area and gives it a sense of identity. For good reason, it attracts thousands of people per day for shopping, dining, recreation, and employment. However, the enclosed shopping mall is at a crossroads. The business model behind the design is changing. Department stores no longer can serve as the anchors that draw visitors. Therefore, new anchors, new uses, and potentially new designs will be necessary for survival. The development community is paying close attention to the choices mall owners make. If they feel the adaptations are inadequate this will affect their decisions to invest in the study area.

- **Any repositioning of Maplewood Mall has a very thin margin for error.** Sears will be closing in July 2018. Macy's and JC Penney have been systematically reducing their number of stores. Moreover, in terms of overall size and affluence, the mall's trade area demographics are in the bottom half when compared to the trade areas of other metro area regional shopping districts. This puts Maplewood Mall at a greater risk than malls located in more affluent trade areas in which there is more market depth and developer interest to "test out" grand ideas for how a mall can successfully reposition itself. Given all the uncertainty, the most marketable approach to any repositioning would be to assume uncertainty as a given and plan any physical change to be as flexible and adaptable as possible.
- **Office uses will not drive development in the study area.** Instead, the demand for office space will be entirely driven by long-term growth in the household base. The northeast metro area is not a major office district and thus lacks even a single Class A office property. As a result, the office space that does exist in the trade area mostly satisfies local demand from small professional service firms, such as real estate agents, financial planners, attorneys, accountants, etc.
- **When office market conditions in the trade area are supportive of new development, the study area should be considered a priority location.** It has many of the amenities employers are looking for to help with worker attraction and retention (i.e., proximity to shops, restaurants, trails, and transit). Currently, the office vacancy rate in the trade area is tight (less than 4.5% compared the metro area rate of 8.0%) and rents have been on an upward trend in the last three years. This suggests that there may be pent-up demand in the market for a small office building (under 30,000 square feet).
- **Medical office space is an important niche in the study area and should be evaluated for how the clustering of activities and specialties could be leveraged into new opportunities for growth and/or development.** There are 14 medical office buildings in the study area with a combined total of over 500,000 square feet. This concentration of space means that there is an unusually strong cluster that anchors a trade area in which 22 percent of all office space is in medical office buildings. To illustrate how strong a cluster this is, across the metro area that proportion is only six percent.